OVERSIGHT ON VA INSURANCE PROGRAMS

HEARING

BEFORE THE

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COMPENSATION, PENSION, AND INSURANCE

OF THE

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HOUSE OF REPRESENTATIVES

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CONTENTS

SEPTEMBER 10, 1985

Page

Oversight on VA Insurance Programs 1

OPENING STATEMENTS

Chairman Applegate 1
Chairman Montgomery 2
Hon. Gerald B.H. Solomon 115

WITNESSES

Edmiston, Stephen L., deputy national legislative director, Disabled American Veterans 13
  Prepared statement of Mr. Edmiston 94
Moran, Bob, associate legislative director, Paralyzed Veterans of America 15
  Prepared statement of Mr. Moran 108
Partridge, Charles C., legislative counsel, National Association for Uniformed Services 14
  Prepared statement of Mr. Partridge 104
Vogel, R.J., Chief Benefits Director, Veterans' Administration; accompanied by Robert Carey, Director, Philadelphia VA Regional Office and Insurance Center; and Paul Koons, Assistant Director for Insurance, Phildelphia VA Regional Office and Insurance Center 2
  Prepared statement of Mr. Vogel 19
Wanamaker, Cmdr. John F., deputy director, legislative affairs, the Retired Officers Association 10
  Prepared statement of Mr. Wanamaker 86

MATERIAL SUBMITTED FOR THE RECORD

Statements:
  Non-Commissioned Officers Association of the United States of America 116
Written Committee questions and their response:
  Hon. Gerald B.H. Solomon to Veterans' Administration 118

OVERSIGHT ON VA INSURANCE PROGRAMS

TUESDAY, SEPTEMBER 10, 1985

House of Representatives,
Subcommittee on Compensation,
Pension and Insurance,
Committee on Veterans' Affairs
Washington, DC.

The subcommitttee met, pursuant to notice, at 9:12 a.m., in room 334, Cannon House Office Building, Hon. Douglas Applegate (chairman of the subcommittee) presiding.

Present: Representatives Applegate, Montgomery, Evans and Robinson.

OPENING STATEMENT OF CHAIRMAN APPLEGATE

Mr. Applegate. Good morning to everybody.

We meet today in an oversight hearing to get a report on the status of the various insurance programs of the Veterans' Administration. We have some old faces with us today, but in some new roles. This is the first appearance before our subcommittee of Mr. John Vogel as the new Chief Benefits Director. It is good to have you here and we welcome you in your new capacity and look forward to working with you in what you know and we know is a very challenging role.

With Mr. Vogel is Mr. Bob Carey, who was recently announced as the Director of the Philadelphia Regional Office and Insurance Center, succeeding the present Chief Benefits Director. With him is also Mr. Paul Koons, who is now the Assistant Director for Insurance at the Philadelphia center. As I said, these are old faces in new positions and I certainly congratulate each of you.

I look forward to hearing from the witnesses today about the condition of the programs. I am especially interested in how the capping of term insurance is progressing. Mr. Vogel will also tell us about his plans for further improvements and enahancements of this program.

I would like to recognize at this time Mr. Jerry Solomon, but Mr. Solomon is not with us quite yet. He is due in any moment, so when he does arrive, we will certainly hear from him.

We are also very pleased to have with us today the chairman of the full committee, Mr. G.V. "Sonny" Montgomery. Mr. Chairman, it is always nice to recognize you in our subcommittee. We always feel quite honored about that. We would like to have some opening remarks from you.

OPENING STATEMENT OF CHAIRMAN MONTGOMERY

Mr. Montgomery. Thank you, Mr. Chairman. As chairman of the full committee, I do appreciate you giving me this opportunity to come to these subcommittee hearings and especially on this oversight hearing on insurance. These are probably some of the best programs we have had for veterans and it has literally paid off.

I would like to welcome Mr. Vogel, the new Director, in one of the important jobs downtown. I met Mr. Carey, who is now running the VA Regional Office and Insurance Center, and also his assistant, Mr. Koons.

I want to congratulate you, Mr. Chairman, on having these oversight hearings pertaining to insurance. As I said, this is just a super, program for the veterans.

Mr. Applegate. Thank you, Mr. Chairman. As I say, we always feel honored. I don't know, but if you attend all the other subcommittee meetings as regularly as you attend this one, you have to be a pretty busy guy. We are always happy to have you and to listen to you.

Our first witness today will be Mr. John Vogel, the Chief Benefits Director of the VA. If you would, please introduce those accompanying you in a more presonal vein. You certainly can proceed as you wich and you may summarize. Your complete statement, of course, will be entered into the record.

STATEMENT OF R. J. VOGEL, CHIEF BENEFITS DIRECTOR, VETERANS' ADMINISTRATON; ACCOMPANIED BY ROBERT CAREY, DIRECTOR, PHILADELPHIA VA REGIONAL OFFICE AND INSURANCE CENTER; AND PAUL KOONS, ASSISTANT DIRECTOR FOR INSURANCE, PHILADELPHIA VA REGIONAL OFFICE AND INSURANCE CENTER

Mr. Vogel. Thank you, sir. I appreciate your recognizing Bob Carey and Paul Koons. I feel very comfortable with the two of them managing the insurance program in Philadelphia for the department. With all the programs we run, I quite agree with Mr. Montgomery, that it is, to use his words, a super program. The management I think is also super, and I take my hat off to these two gentlemen.

Mr. Chairman and members of the subcommittee, we appreciate and welcome the opportunity to address the subcommittee and to review the status of the various insurance programs which we administer and supervise and to outline for you the goals and objectives we have developed for the insurance programs.

Rather than reading the complete testimony which has been submitted for the record, I will briefly outline the status of each insurance program and highlight some of our accomplishments since the last oversight hearing in 1983.

First of all, I want to report that all of the programs are in a sound financial position. The U.S. Government Life Insurance program, USGLI, the oldest program we administer, was established in 1919. At the last oversight hearing we discussed the Administrator's decision to declare all USGLI policies paid up. This action, taken in January 1983, has proved beneficial to both the insured and the Veterans' Administration. Veterans insured under this program now no longer face the risk of lapsing by inadvertently forgetting their premium payment, a significant consideration when taking into account the advanced age of these policyholders is 78.5 years on the average as of the end of 1984. The Veterans' Administration, for its part, has realized administrative savings by eliminating processing actions associated with premium payments. As of December 31, 1984, over 68,000 USGLI policies remained in force.

The National Service Life Insurance program, NSLI, established by the NSLI Act of 1940, is actually comprised of four distinct programs. For the largest of these programs, commonly referred to as V insurance, over 22 million policies were issued during the 11 years that it was available. Today, over 3,130,000 V policies remain in force. Of the over 3 million V policies, over 30 percent are term policies. While term policies provide attractive, low cost protection to veterans when they are younger, rates increase significantly beyond age 60 and can become financially burdensome to our older policyholders.

At our last oversight hearing we discussed plans for capping NSLI term premiums. As a result of our actuarial studies, the Administrator approved a regulation that became effective September 1, 1984, which capped the V term policy premiums at the age 70 rate. Under this new regulation, V term premiums will never exceed the age 70-rate, the $6.18 per month per $1,000 of coverage. Funds for the V term capping have been derived exclusively from surplus funds accumulated from funds contributed by term policyholders. Permanent plan policyholders' funds were not used and permanent plan policyholders' dividends will not be affected in any way by the capping of V term policies.

Since the inception of the term capping program, nearly 61,000 of the approximately 1 million term policies have been capped at the age 70 rate. Of the 61,000 policies affected thus far, premium rates were actually rolled back on over 50,000 of them. Approximately 164,000 policies will be eligible for term capping within the next 5 years.

The Veterans' Special Life Insurance program, VSLI, the second largest of the NSLI programs, with nearly 370,000 policies still in force today, was enacted to meet the insurance needs due to the Korean conflict. Originally issued on a 5-year level premium term basis, legislation enacted in 1959 allowed policyholders to convert to permanent plans or to exchange their policies for special lower premium, limited convertible term, LCT, insurance. Limited convertible term policies, identified by the prefix W, must be converted to a permanent plan before the end of the renewal period in which the insured reaches age 50 or coverage ceases. As a result of mailings in this area, over 25,000 W term policies were exchanged for permanent plans in 1984,

The third NSLI program, Veterans' Reopened Insurance, VRI, was established by legislation which reopened NSLI to certain Korean and World War II veterans for a 1-year period, 1965 to 1966. Because of the continued favorable mortality experience and rising returns on the program's investments, commencing January 1, 1984, termination dividends will be paid at the time JR and JS policies are terminated by death of the policyholder, cash surrender, or maturity of an endowment policy. We estimate that the annual termination dividends will average $500 a policy.

The final NSLI program I will touch on is the Service-Disabled Veterans' Insurance Program, SDVI. This program is the only NSLI program under which policies are still being issued. Approximately 5,000 new SDVI policies are issued each year to veterans separated from service after April 25, 1951, who suffer from service-connected disabilities. Because SDVI insures medically substandard lives at standard insurance rates, premium income is not sufficient to cover the expenses of the program. The excess cost of this program is covered by the Veterans' Insurance and Indemnities appropriation. During fiscal year 1985 approximately $8.8 million will be transferred from the VI&I account to cover SDVI expenses. This will bring the Government's total contribution to this program to date of over $100 million.

In managing these programs we have established a series of goals and objectives that are designed to meet the goals established by the Administrator. We are currently developing several proposals that would enable us to enhance the financial benefits of the insurance programs and improve the delivery of services that we provide to policyholders and their beneficiaries. We are also pursuing several projects designed to modernize the technology we use to deliver insurance benefits and services.

I would like to highlight for you some of the proposals under development and review steps we are taking to modernize our operations.

Program enhancement proposals include proposals to increase the face value of paid up additions by up to 15 percent, developing new premium payment options that would give policyholders more flexibility in paying premiums, and reduce administrative costs associated with processing remittances. We are also considering a reduction in the interest rate for policy loans and the adoption of a variable loan interest rate for policy loans.

In addition to these proposed program enhancements, we are also pursuing major modernization projects to update the automatic data processing support which is required to efficiently administer the USGLI and NSLI programs.

As of June, 1983, the insurance activity began implementing phase I of what is referred to as the insurance on-line terminal system, ITS. The implementation of this system is a long-range effort to provide the insurance activity with modern electronic data processing capabilities. The ultimate goals of implementing ITS are to provide insurance personnel with immediate access to insurance master records and the ability to make changes to these records using video display terminals.

The redesign of insurance data processing is being developed and implemented in two major phases: Phase I, inquiry, and phase II, data entry. With the exception of one small segment scheduled for installation this November, phase I, the inquiry phase, is now complete.

Phase II, data entry, is scheduled for completion by February, 1988. In the data entry phase, functions providing the most benefit/payback are being developed first.

In conjunction with the implementation of ITS, we are also in the process of modifying our current ADP programs so as to allow for quick and easy implementation of the type of program enhancements we discussed earlier.

Another area in which we are upgrading our technology is remittance processing. A recent study in this area indicated that, with the replacement of our outdated remittance processing system, inhouse costs associated with collections activity would be lower than if we contracted out this function. Consequently, we have issued a request for proposal for replacement of our current system.

I would now like to turn to a discussion of the financial status of the insurance programs we administer. As I stated at the outset, the programs are in excellent financial condition.

The insurance trust funds were established to ensure that each insurance program is adequately funded to meet all of its future liabilities. From the premiums received, a sufficient amount of reserve is set aside to meet future obligations. The reserves are maintained on an actuarial basis, claims are paid from the funds, and dividends are distributed to the insureds from mortality savings and excess interest earings.

In 1984 we renegotiated the investment agreement we have with the Department of the Treasury concerning the investment of trust fund assets. Under the new agreement, interest rates on our investments will no longer be set by Treasury at one-half and one-quarter percent below the market yield rates. In return, we have agreed to the elimination of a minimum guaranteed investment rate of 3 percent on NSLI funds and 3½ percent on USGLI funds.

The insurance actuarial staff has reviewed the NSLI and USGLI investment portfolios and has determined that as a result of the new agreement with the Treasury there is no risk associated with our foregoing of the guaranteed interest rates. The new agreement with Treasury applies to all funds invested after January 1, 1985.

In the area of cash management, we have adopted an aggressive program that enables us to deposit 97 percent of the remittances we receive in Philadelphia on the same day that they are received. This is important, especially when you consider that the St. Paul and Philadelphia offices receive an average of 45,000 remittances each day, representing $2.2 million in premiums and loan repayments.

During fiscal year 1984, the total administrative cost attributable to the insurance programs was $27,566,000. Of this amount, $490,000 was reimbursed from the SGLI fund for supervision of the SGLI and Veterans' Group Life Insurance programs. A total of $1,161,000 was reimbursed from the VRI fund as required by law for administration of the VRI program. The net cost borne by the Government was, therefore, $25,915,000. This represents an average of $6.53 per policy maintained for fiscal year 1984.

I would now like to turn to a discussion of the insurance programs supervised by the VA. They include the SGLI and VGLI programs and the Veterans' Mortgage Life Insurance or VMLI program.

SGLI, by far the largest of the three group programs, provides in excess of $119.2 billion in insurance protection for over 3.4 million members of the uniformed services, ready reserves, and retired reserves.

Instituted in 1965 to meet the insurance needs of the Vietnam era service member, SGLI has undergone several significant modifications over the years in order to meet the changing insurance needs of those it was designed to protect. Perhaps the more notable of these developments has been the program coverage expansions and increases in the amount of coverage.

As you know, legislation is currently pending to increase SGLI coverage to $50,000. The most notable development in the SGLI program since our last oversight hearing is the further reduction in premiums from active duty members and ready reservists. Effective July 1, 1984, the monthly rate was reduced from 11.6 cents to 8 cents per $1,000 in coverage. The monthly premium for the maximum coverage of $35,000 is $2.80 as compared to a former rate of $4.06 per month. This 31 percent reduction has resulted in overall annual savings of $33.2 million for active duty personnel and $14.2 million for ready reservists.

The SGLI rate reduction is the result of increased interest earnings and a continuing favorable mortality experience which has caused the program's contingency reserve to increase over the last several years. In order to reduce the contingency reserve to an appropriate level, the new premium has been set at considerably below the break even rate of approximately 12.6 cents per month per $1,000 of insurance. As a result, gradual premium increases will be required in the future as experience warrants.

We are currently considering a proposal to exempt SGLI programs from paying State premium taxes, under the rationale that SGLI, as a Federal program, should be exempted from State taxation. Also, the Federal Employees Group Life Insurance Program, which is similar to the SGLI program, has been specifically exempted by legislation from State premium taxes. Any savings accruing from this proposal would be passed on to the insured members. Since the SGLI program's inception in 1965, through June 1984, nearly $46 million has been paid in State premium taxes. Annually, approximately $3.4 million is paid in State premium taxes.

The Veterans' Insurance Act of 1974, in addition to extending SGLI coverage to ready and retired reservists, created the VGLI program. VGLI is a program of post-separation insurance which provides for the conversion of SGLI to a 5-year, nonrenewable term policy. At the end of the 5-year period, VGLI may be converted to a commercial, permanent plan policy with any one of about 300 participating life insurance companies.

Currently, approximately $7.26 billion in insurance coverage protects 258,000 veterans under the VGLI program.

Over the past several years, participation in the VGLI program has decreased rather markedly. In response, various VGLI program and marketing changes are under review and development. Our principal effort in this regard concerns the treatment of VGLI at the time of separation. Both the VA and the Office of Servicemen's Group Life Insurance would like to make it possible for an individual to apply for VGLI during the separation process and have the initial premium payment deducted from his or her final service pay. We believe we will be able to offer a substantial first year premium discount to those individuals who apply prior to separation. The premium, along with the application, would then be forwarded to the Office of Servicemen's Group Life Insurance. We are presently working with the Department of Defense in this regard. Another area in which we are currently working with the Department of Defense and service departments concerns the payment of VGLI premiums by an allotment from service retired pay.

We are also working with the Department of Defense to develop an information film regarding all VA benefits to be shown during the separation process. Among other things, the film will describe the role of insurance in general, and the advantages of VGLI in particular.

I would now like to turn to the Veterans' Mortgage Life Insurance Program. In 1971, Congress authorized the VA to purchase from one or more life insurance companies a policy or policies of mortgage protection life insurance on a group basis for seriously disabled veterans who have received VA grants for specially adapted housing. VMLI is currently provided through a group policy which the VA has secured from Bankers Life Insurance Co. of Nebraska. The program is supervised by the VA and administered by Bankers Life through the Office of Veterans' Mortgage Life Insurance located in Lincoln, NE. A maximum of $40,000 in insurance protection is afforded to a veteran who receives a VA housing grant, provided he resides in a residence which he owns and which is encumbered by a mortgage on which he or she has a liability. The protection is automatic unless the veteran declines in writing or fails to furnish required information.

There are currently 5,944 active accounts, representing $182 million in coverage. Since the inception of the program, 2,522 claims have been paid, representing $50 million. The Government bears the administrative costs of the program and all costs for claims in excess of premiums paid by the insured veterans. The total Government subsidy for calendar year 1984 amounted to $3.6 million.

Mr. Chairman, this concludes my prepared remarks. I shall be pleased to answer any questions you may have.

[The statement of R. J. Vogel appears at p. 19.]

Mr. APPLEGATE. Thank you very much, Mr. Vogel, for a very excellent report. I guess it shows what can be done when two groups can get their heads together. Without having to go through a prolonged legislative process, sometimes things can be worked out through a mutual understanding. I am very happy to see that it is working.

I do have a couple of questions, and there may well be some additional questions that we would like to submit to you for answers. I would say, too, the increasing of the SGLI to $50,000, I think, is moving along pretty well. It's in the conference committee now and it probably shouldn't be too long before that will be put into law. So we will have an accomplishment there.

You say that it costs the Veterans' Administration an average of $6.53 per policy to administer the insurance programs. Do you have any comparable data with that of the private insurers, as to the private companies?

Mr. VOGEL. Yes, we do have some data. A full and complete comparison of our program with commercial programs is not fully possible, but the VA's Inspector General looked into the matter and did develop data. The data basically supported the fact that administratively we are in a very favorable posture.

The average cost of a term commercial group policy is about the same as ours. However, they don't have built into those policies the same kind of services that we provide—multiple loans, cash surrenders, and other features which we have in the program of a generic nature, of term, permanent, and endowment plans, et cetera.

If you would like the information, an extract or the entire Inspector General's study, I would be pleased to provide it, Mr. Chairman.

Mr. **APPLEGATE**. Yes, would you, please?

Mr. **VOGEL**. Yes, sir.

[The information appears at p. 65.]

Mr. **APPLEGATE**. On page 13 of your statement you say it is necessary to transfer funds from the basic SGLI fund to cover the cost of coverage for the retired reservists. Have you given any thought to increasing the premiums for the retired reservists so that they would be paying their own way?

Mr. **VOGEL**. Yes, sir. Our actuarial staff is going to review the premium structure for both retired reservists and the VGLI program. Generally, we want to keep the rates attractive enough to maintain a viable program. If they are too high, the participation will go down and what we will wind up with in the insured group will be the high risk cases. So yes, sir, we are planning to study the total premium structure in that program.

Mr. **APPLEGATE**. You haven't done it to this point, so you have no revelations?

Mr. **VOGEL**. No, I don't, not at this point, sir.

Mr. **APPLEGATE**. You say, too, that you are considering a proposal to exempt SGLI from paying the State premium taxes, which apparently some but not all of the States do. So this would be a program that would come in line with that of the Federal Employees Group Life Insurance Program, which only seems fair.

I would encourage you to follow up with this. If you have any problems, I would like for you to let us know so that we can get a bill in and perhaps get something moving.

Mr. **VOGEL**. Yes, sir. We will have a proposal as part of our legislative package to be submitted this fall. We would certainly appreciate the support of the committee.

Mr. **APPLEGATE**. I think it's fair. I think we can get the support of the Members and of the House. I don't know that we would have much objection from the States, but we might from some of those, depending upon their situation, too. It really isn't that large an amount of money.

What was the figure you were talking about?

Mr. **VOGEL**. $3.4 million paid last year to the various States by OSGLI.

Mr. **APPLEGATE**. How many States are there, do you have any idea?

Mr. **VOGEL**. I don't think there are any States where they are not paying that premium tax. They are paying it to all States and the District of Columbia. They base it on the proportional rate of service in the Armed Forces that that State has and they simply send them a check for the amount of the coverage.

Mr. APPLEGATE. Have you given any thought also to setting up a procedure where a veteran can have his SGLI or VGLI premiums deducted from his VA compensation, or where he can make quarterly or annual payments? It would seem to me to make it easier for the veteran to make his payments and at the same time be more efficient for the Office of Servicemen's Group Life Insurance in posting the premium payments.

Mr. VOGEL. Yes, sir. We are, in fact, working in that area with the Office of Servicemen's Group Life to make it possible to have premiums deducted from VA compensation as well as from military retired pay. We would like to see OSGLI handle other than monthly premium payments as well. They were a little reluctant to do that until they installed an enhanced ADP system. They now have done so and we will work vigorously with them to get that done. That will bring the administrative costs down and the savings will be passed on to the insureds. We would like to see that.

Mr. APPLEGATE. OK. I appreciate your appearance before the committee. Again, Mr. Vogel, along with Mr. Carey and Mr. Koons, we welcome you before the committee. I guess this is your first official appearance. We look forward to seeing you in the future with some good proposals and some good reports.

Mr. VOGEL. Thank you, sir.

Mr. APPLEGATE. The minority counsel would like to ask a question of Mr. Vogel.

Mr. WILSON. Mr. Vogel, what has been your experience with the Prudential Insurance Co. and what are the financial arrangements?

Mr. VOGEL. The financial arrangements are such that they charge for the administration of the program only those expenses that they directly incur. We audit that program, both from the point of view of management efficiency, as well as the financial arrangements or financial aspects of the program. We are very comfortable with it. We are getting top quality service at a minimal price.

The premium structure is established by the Veterans' Administration in consultation with them, and we do look at the program closely. I think it works very well. It's a very fine case of cooperation between the private and public sector.

Mr. WILSON. Thank you.

On another subject, since the Veterans' Administration increased the rates on loans on policies, what has been the experience with respect to those loans?

Mr. VOGEL. I would ask Bob Carey to address that, sir.

Mr. CAREY. The number of loans has decreased significantly. Back in 1980 when our interest rate was relatively low compared to interest earnings available, we were averaging about 12,000 to 13,000 loans a month. Right now we are averaging about 3,000 or so loans a month.

We are currently considering a proposal to lower the interest rate once again.

Mr. WILSON. On still another subject, with respect to your legislative package that you're developing, are you giving any thought to increasing the mortgage insurance for the seriously disabled veterans that have housing grants?

Mr. **Vogel**. No, sir. We have nothing planned for the legislative package.

Mr. **Wilson**. I would ask the same question with respect to servicemen's disabled insurance.

Mr. **Vogel**. No, sir, we have no proposal.

Mr. **Wilson**. Thank you, Mr. Chairman.

Mr. **Applegate**. Thank you.

Thank you again for appearing before the committee, gentlemen.

Mr. **Vogel**. Thank you, sir.

Mr. **Applegate**. Next we will have a panel of witnesses by four of the various veterans' organizations--the Retired Officers Association, the DAV, the National Association for Uniformed Services, and the PVA. If you all would like to come up to the table, we can sit as a group.

We have Cmdr. John Wanamaker, who is the deputy director, legislative affairs, the Retired Officers Association; Mr. Stephen Edmiston, the deputy national legislative director of the DAV; Mr. Charles Partridge, legislative counsel, National Association for Uniformed Services; and Mr. Bob Moran, associate legislative director, Paralyzed Veterans of America.

First of all, in just general oversight hearings for the purposes of telling the committee some of the ideas that the organizations have with regard to various insurance programs and others, I would like to call first upon Cmdr. John Wanamaker. Commander, I think you have a guest that you would like to introduce.

Commander **Wanamaker**. Yes, Mr. Chairman. I would like to introduce to the committee a new member of our staff, a recent Air Force colonel retiree, Col. Paul Arcari. He will be working closely with the committee in the future to enhance our VA programs, veterans' insurance in particular.

Mr. **Applegate**. Good. It is nice to meet you and good to have you before the committee.

You may proceed.

STATEMENTS OF CMDR. JOHN F. WANAMAKER, DEPUTY DIRECTOR, LEGISLATIVE AFFAIRS, THE RETIRED OFFICERS ASSOCIATION; STEPHEN L. EDMISTON, DEPUTY NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS; CHARLES C. PARTRIDGE, LEGISLATIVE COUNSEL, NATIONAL ASSOCIATION FOR UNIFORMED SERVICES; AND BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

STATEMENT OF JOHN F. WANAMAKER

Commander **Wanamaker**. Thank you, Mr. Chairman, members of the committee. I am Cmdr. John Wanamaker, the deputy director, legislative affairs, the Retired Officers Association, which has its national headquarters at 201 North Washington Street in Alexandria, VA. Our association has a membership of over 340,000 retired former and active duty officers of the seven uniformed services. Included in our membership are over 42,300 widows of former members.

Mr. Chairman, I will read my blue line portion of my statement and would like the full statement inserted in the record.

We welcome this opportunity to appear before the committee to review the various insurance programs administered by the Veterans' Administration.

A service member entering service at 18 years of age, usually without dependents, has a considerably different requirement for insurance coverage than a service member with 15 to 20 years of service with family responsibilities. If one considers the compensation differences that exist between different grades of service members, ranging from $9,000 to $60,000 per year, then it becomes readily apparent that a maximum level of insurance in the range of $50,000 as now proposed for Servicemen's Group Life Insurance may not be appropriate in either extreme case. My point, Mr. Chairman, is that the current program has relatively little flexibility to meet the broad range of different insurance requirements.

We recommend that the committee consider a flexible insurance program similar to that which the Government makes available for its civilian employees. It is further recommended that the new program should provide continuation of coverage after retirement. The civil service plan provides such post-retirement coverage until age 65, at which time three options are made available. These post-retirement options are especially important for those career service members who now find themselves seeking commercial insurance late in life.

An enhanced insurance program for future service members will help alleviate some of the uncertainties of providing adequate survivors protection should one elect a military career.

Assuming that the new maximum level of $50,000 coverage is eventually passed, the Veterans' Administration will, in all probability, be required to renegotiate the contract with Prudential Insurance Co. of America, which is the current administrator. It is recommended that this contract negotiation be entered into on a competitive bid basis and subjected to renegotiation every 5 years. Based on recent advertisement in the Navy Times magazine it would appear that commercial insurance is being offered in larger amounts and at lower net cost after refunds than that provided for SGLI insurance.

Mr. Chairman, in reviewing past legislative history, one becomes fully aware that the Congress has expressed its intent over the years to get out of the insurance business. These good intentions notwithstanding, it is recommended that each time the contract is renegotiated it should be weighed against the potential savings that might redound to both the service member and the Government by bringing the program back in house. Surely an insurance program that requires no policy be issued, no commission on sales, and with premiums collected and paid by the Government, should be considerably cheaper than similar civilian plans to administer.

For the career force, a member who has served 20 or more years is forced to seek a replacement for the lost insurance coverage at a relatively older age with resultant higher costs. It would seem appropriate for the soldiers and sailors of the career force to be able to continue to be covered by the SGLI insurance as are reservists who may retain coverage until age 60. Retired members have an obligation to continue service in retirement being subjected to recall at the discretion of the service secretaries. Under these circumstances, continued coverage would be appropriate. As I indicated ealier, civilian employees of the Government have coverage under that program which they can carry over into retirement. It is recommended that similar coverage for military retirees be provided at least until age 60.

Veterans' Group Life Insurance. This program was developed primarily to enable service members to make an orderly transition to civilian life and provides an interim 5 year coverage during which to purchase replacement insurance. Current law requires that premiums for VGLI coverage be paid directly to the SGLI office located in New Jersey. I believe that should a former service member be retired for whatever reason or in receipt of VA disability compensation, then the individual should be authorized to allot the premiums directly from such compensation.

Finally, should the member desire to exercise his right to the guaranteed insurability feature of that program, he should be provided with an established standard policy with fixed premiums negotiated with the various companies which would eliminate the problems of evaluating the various plans offered by hundreds of different companies.

The NSLI trust fund was established in 1940 to serve the insurance needs of World War II service personnel and veterans. The schedule, which I have in my statement, provides a capsule overview of the activity of this program proposed for 1986.

From this activity, one can determine that the interest received from investments exceeds the payments of death claims by over $370 million. I believe that the Administrator could declare all policies paid up and that there would be sufficient residual funds in the trust to amortize all future liabilities. The fund would continue to grow. Termination of premium payments alone would result in substantial savings. This committee could request a report from the board of actuaries on the feasibility of such a proposal. We feel this approach would effect significant savings to both the veteran and the Government. With the insurance in force decreasing by over $500 million each year, and the fund increasing by surplus interest by over $300 million, the fund would equal the remaining insurance in force in less than 15 years. A similar curtailment of premiums was made in the USGLI program and I believe it proper that the committee look ahead now at the NSLI program for similar action.

Mr. Chairman, last year the Congress included in the Defense Authorization Act a requirement that the Department of Defense design a program to contract with one or more private insurance companies to provide, at a lower than individual rate with a waiver of pre-existing conditions, a conversion policy to provide health care for all individuals who lose their entitlement to care in the military health care system. I believe this function is more properly a function within the oversight responsibilities of this committee. The need for this type of medical care coverage has been recognized and since this benefit would apply for those who leave military service, I strongly recommend that a program be established to meet this requirement.

Currently conferees of this committee are faced with a budget resolution calling for a drastic reduction in the costs of VA health care. This budget resolution, though not specific, points toward the reduction in health care for veterans over age 65 who do not have service-connected disabilities. With the majority of World War II veterans rapidly approaching that age, it is recommended that the medical care for these veterans be provided through a Government contracted Medicare supplemental insurance program. Premiums for such supplemental coverage could be coordinated with Social Security. Premiums could be adjusted for those with service-connected disabilities by the VA paying that portion for the supplemental plan equal to the percentage of service-connected disability of the veteran. This could be further expanded to include supplemental coverage for beneficiaries of the CHAMPUS program. Such a plan could result in a reduction in future VA medical facilities and a reduced premium for the veteran. Other advantages accruing from the system would include greater continuity of care and increased member satisfaction in that the veteran would be able to elect the provider.

Mr. Chairman, I know I have made some rather radical suggestions to improve the service of the Veterans' Administration insurance programs, but I believe them to be constructive in nature with the ultimate objective of improving the insurance coverage for all our soldiers and sailors who serve their country, while at the same time drawing attention to areas whereby savings can be effected by the Government.

This concludes my comments and I would be happy to try and answer any questions the members may have.

[The statement of Cmdr. John Wanamaker appears at p. 86.]

Mr. APPLEGATE. Thank you very much Commander Wanamaker. Yes, I would say that you have made some rather radical suggestions, and you do believe them to be constructive. Of course, I guess suggestions is really the cornerstone of change around which new programs are built and they have to be brought out and aired. Certainly I appreciate your comments.

Commander WANAMAKER. Thank you, Mr. Chairman.

Mr. APPLEGATE. At this time we will move to Mr. Steve Edmiston, the deputy national legislative director of the DAV.

STATEMENT OF STEPHEN L. EDMISTON

Mr. EDMISTON. Thank you, Mr. Chairman. It is a pleasure to be here this morning.

On behalf of the 1 million members of the DAV, may I say that we appreciate the opportunity to present our views on the various VA insurance programs.

Initially, Mr. Chairman, we wish to commend you for holding this hearing and for keeping a watchful eye on the effectiveness of these important programs.

As you know, the VA operates a number of life insurance programs that insure the lives of millions of veterans and active duty service personnel. It has been our observation that the VA has done a good job in administering these programs. Accordingly, the

DAV has no specific comments or recommendations relative to those programs.

However, the VA also administers a program of mortgage life insurance for service-connected disabled veterans who have obtained housing under section 801(a) of title 38—that's the VA's specially adapted housing program. In this regard, I would like to comment on several issues of concern to the DAV.

Specifically, the delegates to our most recent national convention adopted a resolution supporting the enactment of legislation that would extend Veterans' Mortgage Life Insurance to those service-connected veterans rated permanently and totally disabled. The DAV believes that the enactment of such a proposal would provide additional security to the families of those service-connected veterans rated permanently and totally disabled. We believe that such severely disabled veterans, because of their service-connected disabilities, are excluded from the commercial life insurance market, and because of the extent of their disabilities may not have accumulated the necessary savings to ensure financial security for their families.

The other insurance issue addressed by our delegates concerns the termination of Veterans' Mortgage Life Insurance when a veteran becomes 70 years of age. Mr. Chairman, the DAV believes this provision of title 38 has created an anomaly that unfairly treats similarly situated, severely disabled service-connected veterans in a very dissimilar manner in the award of benefits. No where else in title 38 do we find a provision that links age as a factor in the award or discontinuance of benefits provided to service-connected veterans.

That concludes my statement, Mr. Chairman. The DAV would urge the subcommittee to consider some of these recommendations. We again wish to thank you for the opportunity to be here this morning.

[The statement of Stephen Edmiston appears at p. 94.]

Mr. APPLEGATE. Thank you very much. You can be assured that we will be looking at each of these with the thought in mind that whatever can come out of these to make the veterans' program a better program, we will do it.

Incidentally, each of the statements that you have will be placed into the record. I should have mentioned that at first.

Next we have Mr. Charles Partridge, legislative counsel for the National Association for Uniformed Services.

STATEMENT OF CHARLES C. PARTRIDGE

Mr. PARTRIDGE. Good morning, Mr. Chairman. I welcome the opportunity to present the views of the National Association for Uniformed Services to this distinguished panel.

An improved insurance program is essential if we are to meet the needs of the young service member. Since increasing numbers of them are married, the insurance program is becoming a more important part of military compensation and a key benefit for young veterans. The action by both Houses of Congress to increase the maximum coverage of SGLI to $50,000 is an excellent step toward improving insurance coverage. We believe that this should be considered a first step and that the committee consider making the program more flexible with a range of coverage options comparable to that available to Federal civilian employees and employees in the private sector.

We would particularly like to see a provision for expanding the group term life insurance program to include a cash value or equity building component. This could be a policy similar to the universal life policies now available and would allow the service member the opportunity to build an estate, increasingly important these days. Since this part of the insurance program is the cash value component, there would be no war risk and no need for a subsidy. The program could be self-supporting with the savings to the service member coming from providing insurance without agents' commissions, advertising costs, and lower per capita administrative costs because of the large numbers involved. If properly designed, the policy could be a powerful retention tool, particularly at the mid-career point.

Other improvements to the program we would like to see would be to extend insurance coverage for retired military personnel without the requirement for conversion until social security eligibility or at least until age 60, as is the case for reservists. Currently there are thousands of military personnel with contingency or "hip pocket" orders who have been required to convert their policies or are no longer covered because the conversion cost is too great. It would seem that insurance coverage should be available to these service members who are still serving and subject to involuntary recall at the discretion of the service secretaries.

We also continue to support providing payment of VGLI by allotment from VA disability compensaton or retired pay, for several reasons: it eliminates the possibility of coverage lapse and should result in administrative cost savings to the VA. From Mr. Vogel's testimony, it appears they are moving in that direction.

I understand that the Department of Defense and the VA are also looking at a plan to provide for application for VGLI at the service member's separation point as part of discharge and retirement processing. This would be a tremendous improvement over the current method and, if coupled with provisions to allow payment by allotment, would certainly increase the number of participants.

Mr. Chairman, I appreciate the opportunity to present our views on this subject and the interest displayed by your committee on matters of importance to veterans.

[The statement of Charles Partridge appears at p. 104.]

Mr. APPLEGATE. Thank you very much, Mr. Partridge. Your comments will certainly be reviewed and taken into consideration. You have some good ideas and there seems to be a uniformity of thought with these. I thank you very much.

Next we have Mr. Bob Moran, associate legislative director of the PVA.

STATEMENT OF BOB MORAN

Mr. MORAN. Thank you, Mr. Chairman.

On behalf of the members of PVA, I would like to thank you for the opportunity to present the views and concerns of PVA. I am Bob Moran, PVA's associate legislative director.

I will limit my remarks today to just two of the insurance programs administered by the VA which directly affect PVA's members. They are the National Service Life Insurance, RH policies, and Veterans' Mortgage Life Insurance.

The insurance programs administered by the Veterans' Administration have long served as a necessary resource for many veterans, particularly severely disabled veterans, who otherwise would not have access to commercial insurance. RH insurance is a special type of National Service Life Insurance which is available to veterans with service-connected disabilities and is issued in amounts from $1,000 to $10,000. PVA's concern is with the low amount of insurance coverage provided under this type of policy. It must be kept in mind that it is this same service-connected disability that hinders the veteran from purchasing insurance from commercial companies at a reasonable premium.

Commercial insurance companies estimate the appropriate amount of insurance protection required by an individual by using the factors of age, life expectancy, number of dependents, and annual earning capacity. The maximum amount of National Service Life Insurance, $10,000, is not sufficient to meet today's obligations when compared to the recommendation of private insurers. For a spinal cord injured veteran, using the criteria established by private insurers, adequate coverage should be over $140,000. It is apparent that a policy designed over 30 years ago is inadequate today. It has not been increased to offset rising economic factors and it does not permit the catatrophic disabled veteran the opportunity of providing long-term financial security.

PVA strongly recommends that this subcommittee consider raising the National Service Life Insurance's maximum amount available by allowing eligible veterans the opportunity to purchase additional amounts of RH insurance up to an additional $100,000.

Another concern of PVA is Veterans' Mortgage Life Insurance. VMLI is a program of group type mortgage life insurance for service-connected disabled veterans who have been granted a specially adapted housing grant. VMLI provides mortgage insurance for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical condition. Protection is automatic for the amount of the mortgage up to the maximum of $40,000.

Mr. Chairman, PVA believes that the cost factors involved in new home construction are well known to all members of the subcommittee. Whereas in 1976 new housing cost almost $58,000—and the VMLI was $40,000—today the same house costs approximately $102,000 and the VMLI is still $40,000. In less than 10 years, housing costs have nearly doubled and the VMLI is not keeping pace with today's economic situation.

PVA advocates that VMLI maximum coverage be increased to $60,000 to more accurately reflect the increased amount of mortgage, which is likely to remain after the veteran's death.

Mr. Chairman, in conclusion, I wish to reiterate PVA's concerns. First, we believe that National Service Life Insurance RH policies should be increased by allowing eligible veterans the opportunity to purchase up to an additional $100,000 in coverage. Secondly, VMLI should be increased from $40,000 to $60,000 to reflect the rising cost of housing and allow our nation's severely disabled veterans sufficient coverage to provide adequately for their families.

This concludes my testimony. Thank you.

[The statement of Bob Moran appears at p. 108.]

Mr. **Applegate**. Thank you very much, Mr. Moran.

I have no questions at this point, but I may have and I may have them submitted to you for you to answer. But I do appreciate your testimony. It is very important to us. It does suggest some changes and makes some recommendations, I think many of which are good. We will be very happy to review them and take them under advisement. We will be happy to work with you.

At this time I would like to refer to Rufus Wilson, minority counsel, for any comments or questions he might have.

Mr. **Wilson**. Thank you, Mr. Chairman.

Mr. Solomon was delayed. He is still on his way and I know he would want to express his appreciation to the witnesses for their testimony this morning.

Mr. Chairman, I would ask that Mr. Solomon's opening statement, that he would have made had he been here, be placed in the record.

Mr. **Applegate**. So moved.

Mr. **Wilson**. And he would also have some questions for the record.

Mr. **Applegate**. Without objection.

Mr. **Wilson**. Thank you, Mr. Chairman.

[The statement of Hon. Gerald Solomon appears at p. 115.]

Mr. **Applegate**. Thank you, Mr. Wilson.

Again, gentlemen, thank you very much for appearing before the committee, and I thank the rest of you in the audience for being here, and to the VA, Mr. Vogel.

[Whereupon, at 10:12 a.m., the subcommittee adjourned.]

APPENDIX

Statement of

R.J. VOGEL
Chief Benefits Director

before the

Subcommittee on
Compensation, Pension and Insurance

September 10, 1985

We appreciate and welcome this opportunity to provide you with the status of the various insurance programs supervised and administered by the Veterans Administration and to outline for you the goals and objectives we have developed for the insurance programs.

First of all, I want to report that all of the programs are in sound financial position. The Service-Disabled Veterans Insurance (SDVI) and the Veterans Mortgage Life Insurance (VMLI) programs, which were designed to insure disabled lives at standard premium rates, continue to require annual subsidies from appropriated funds.

I will first briefly outline the status of the individual insurance programs administered by the VA and highlight some of our accomplishments since the last oversight hearing in 1983. Detailed summaries covering each program are provided in Exhibits A-1 through A-5.

The United States Government Life Insurance (USGLI) program (policies prefixed with "K") was established in 1919 to provide insurance protection to World War I veterans and active duty members of the Armed Forces. A total of 1.15 million policies were issued under the program. The program was closed to new issues in 1951 and as of December 31, 1984, 68,682 policies remained in force. The Administrator declared all "K" policies paid-up as of January 1, 1983. That is, no further premium payments are required from these policyholders. The Administrator was able to make this decision based on the Actuarial Staff's determination that the program's reserves and future earnings will be sufficient to meet all of the future liabilities that will be incurred by the program. In taking this action the Administrator assured that these policyholders would no longer face the risk of lapsing by inadvertently forgetting a premium payment. This is a significant consideration, especially when the advanced age of these insureds is taken into account. The average age of USGLI policyholders as of the end of 1984 was 78.5 years. We also achieved some administrative savings by eliminating the billing and check processing actions associated with premium payments.

The National Service Life Insurance (NSLI) program (policies prefixed with V, H, N, AN) was authorized by the NSLI Act of 1940. Over the years, the 1940 Act has been amended and expanded to a point where there are now four distinct NSLI programs.

NSLI insurance, commonly referred to as "V" insurance, is by far the largest NSLI program. NSLI was available between 1940 and 1951 and during that time over 22 million policies were issued, of which 3,130,000 remain in force today.

Of the over 3 million "V" policies, over 30 percent are term policies. While these term policies provided attractive, low-cost protection to veterans when they were younger, premium rates increase significantly beyond age 60 and can become financially burdensome if a policyholder elects to retain his or her policy.

At our last oversight hearings we discussed our plans for capping NSLI term premiums. As a result of our actuarial studies, the Administrator approved a regulation that became effective on September 1, 1984, which capped the "V" term policy premiums at the age 70 rate. Under the new regulations "V" term premiums will never exceed the age 70 rate of $6.18 per month per $1,000 of coverage.

An initial reserve of $152 million was required to fund this action. The funds were accumulated from funds contributed by term policyholders only. There were no funds transferred from permanent plan policyholders. In addition, dividends will not generally be paid to policyholders whose premiums are capped unless justified by future experience. Thus, all funding for term capping has been derived from surplus funds contributed solely by term policyholders.

To date, nearly 61,000 of the approximately 1 million term policies have been capped at the age 70 rate. Of the 61,000 policies affected thus far, premium rates were actually rolled back on over 50,000 of them. Approximately 164,000 policies will be eligible for term capping within the next five years.

The second largest NSLI program is the Veterans' Special Life Insurance (VSLI) program policies prefixed with "RS" or "W"). This program was enacted in 1951 to meet the insurance needs due to the Korean conflict. Nearly 800,000 policies were issued before the program closed in 1957 and of these, approximately 370,000 remain in force today. As originally enacted, only five-year level premium term policies were available.

In 1959, a legislative change permitted these "RS" policyholders to convert to permanent plans, or to exchange their policies for special lower premium limited convertible term insurance. These newer policies, identified by the prefix "W", must be converted to a permanent plan of insurance before the end of the renewal period in which the insured reaches age 50. If an insured does not convert to a permanent plan during that time, insurance coverage ceases at the end of the renewal period and cannot be reinstated. Conversion information and applications are automatically sent to "W" policyholders one year and 90 days prior to the expiration dates of their insurance. Over 25,000 "W" term policies were exchanged for permanent plan policies in 1984. We estimate that 25 percent of the policyholders in their final renewal period are converting to a permanent plan.

The third NSLI program, Veterans' Reopened Insurance (VRI) (policies prefixed with J, JR, JS) was established by legislation enacted in 1964. For a one year period (1965 to 1966) NSLI was reopened to certain Korean and World War II veterans. A total of 227,882 policies were issued under this program and as of the end of 1984, 151,770 policies remained in force. Because of the favorable mortality experience and rising returns on the program's investments over the years, we have been able to make several program changes that have been beneficial to policyholders. Most recently, commencing January 1, 1985, termination dividends will be paid at the time JR and JS policies are terminated by death of the policyholder, are cash surrendered, or at the maturity of an endowment policy. Based on our estimates, we expect the initial termination dividends to average $500 per policy.

The fourth NSLI program, Service-Disabled Veterans' Insurance (SDVI) (policies prefixed with RH, ARH) is the only NSLI program under which policies are still being issued. A total of 295,728 policies have been issued since the program's inception and we are currently issuing approximately 5,000 "RH" policies per year. There are currently 187,000 policies in force. SDVI is only available to veterans separated from service after April 25, 1951, who are suffering from a service connected disability. Because SDVI insures medically substandard lives at standard premium rates, the premium income is not sufficient to cover all of the program's expenses. The excess cost of claims for this program is covered by the Veterans' Insurance and Indemnities (VI&I) appropriation. During FY '85, $8.8 million will be transferred from the VI&I account to the SDVI program, bringing the Government's total contribution to the program to date to over $100 million. Since the premium income does not cover its costs, there are no reserves to back this program. Consequently, there is a significant unfunded liability. Our Actuarial Staff has estimated that if all current policies are carried to their maturity, the Government would eventually be liable for some $646 million.

In managing these programs we have established a series of goals and objectives that are designed to meet the goals established by the Administrator for the Agency. We are currently developing several proposals that would enable us to enhance the financial benefits of the insurance programs and improve the delivery of services that we provide to policyholders and their beneficiaries. We are also pursuing several projects designed to modernize the technology we use to deliver insurance benefits and services.

Among the proposals we are considering is a change in the mortality and interest reserve assumptions that are used to determine the amount of paid-up additions that a policyholder can purchase with his annual dividend. Currently, paid-up additions are based on the 1958 CSO Basic Table and a 3½ percent interest factor. Our Actuarial Staff is studying the feasibility of adopting a reserve basis that assumes a 4½ percent interest factor. The actuaries estimate that this change would enable us to increase the face value of the existing paid-up addition coverage by approximately 15 percent.

We are also looking at several new premium payment options that would not only give policyholders more flexibility, but would also reduce the administrative expenses we incur in processing premium remittances.

These proposals include a preauthorized checking option which we are working on with Treasury. Under this option a policyholder would authorize us to draw a monthly premium payment directly from his or her checking account. This would be accomplished by a magnetic tape transfer with the Federal Reserve Bank's automated clearing house and would eliminate the need for premium notices and check processing.

A second proposal, which we refer to as net premium billing, would provide policyholders with the option of using their annual dividend to pay premiums and receive either a bill or a check for the difference between the annual premium and the dividend, depending on which is the greater amount. Currently, policyholders may use their dividends to pay premiums; however, there are no mechanics to send them a check or bill for the difference.

We also have a mailing planned to encourage policyholders who are paying premiums on a monthly mode to switch to a quarterly, semiannual, or annual mode. This will be accomplished by placing a stuffer in with their premium packet so that we can avoid the costs associated with a special mailing.

We also plan to encourage policyholders who are receiving compensation to avail themselves of the option to pay premiums through a deduction from their compensation benefits.

We are also considering a proposal which would authorize the Administrator to periodically increase the amount of the monthly installment payments to annuitant beneficiaries. Currently, the reserves held for NSLI "V" annuity payments are generating substantial annual gains from the interest earnings on these reserves. These gains are now distributed to policyholders through the regular annual dividend. Equitably, these gains belong to the annuitants, since it is their reserves which are the source of the gains. However, section 702 of title 38 requires that specific interest rates be used in calculating annuity payments, thereby limiting the amounts which can presently be paid to annuitants. The proposal would allow the addition of such amounts to the annuity payment when determined to be in the best interest of the particular insurance program. At present, only the "V" annuity reserves are producing gains sufficient to justify an increase in annuity payments. The proposal would, however, give the Administrator authority to increase annuity payments for other NSLI programs if warranted by future experience.

Another change under consideration concerns the interest rate charged on policy loans. In 1979 and 1980 when interest rates in general climbed rather dramatically, the rates charged on VA policy loans remained at 5 percent. In 1981, the interest rate on new policy loans was increased to 11 percent. In setting the new loan interest rate we decided that future rate changes should be tied to an economic indicator: U.S. Treasury securities, 10-year constant maturities, which are published monthly by the Council of Economic Advisers. Initially the rate would be set at 2 percentage points below the U.S. Treasury securities rate. The indicator was 13 percent at that time; thus the 11 percent rate. As of July 1985 the indicator was 10.31 percent.

We are reviewing the possibility of submitting a proposal to change the interest formula to allow a variable loan interest rate, which would initially be set at 8 percent. Under this proposal, all loans granted after the effective date would be subject to having their loan interest rate reviewed annually. The advantage of this approach is that loan rates could be adjusted to meet changing economic conditions, without the time-consuming necessity of submitting a formal regulation change each time an adjustment is in order.

In addition to these program enhancements, we are also pursuing a major modernization project to upgrade the automatic data processing support which is required to efficiently administer the USGLI and NSLI programs.

In June of 1983, the Veterans Administration Insurance Activity began implementing Phase I of what is referred to as the Insurance On-Line Terminal System (ITS). The implementation of this system is a long-term effort to provide the Insurance Activity with modern electronic data processing capabilities. The ultimate goals of implementing ITS are to provide Insurance personnel with immediate access to insurance master records and the ability to make changes to those records using video display terminals (VDTs).

The redesign of Insurance data processing is being developed and implemented in two major phases: Phase I, Inquiry; and Phase II, Data Entry.

With the exception of one small segment scheduled for installation in November 1985, Phase I Inquiry is now complete.

To further improve service to our insureds, the Department of Veterans Benefits (DVB) and Office of Data Management and Telecommunications (ODM&T) are currently developing capabilities for providing access to Insurance master records for all Veterans Services Divisions nationwide by means of a link with the Target System. This would allow Veterans Benefits Counselors throughout the country to have instant access to the up-to-date insurance status for any insured.

Phase II, data entry, was inaugurated on August 27, 1984, when the inforce address change screen became the first data entry vehicle available to Insurance personnel. The availability of on-line data entry will allow us to replace the current outdated optical character recognition and punch card dependent technology that is now used to maintain and service our policyholders' accounts. In the data entry phase, functions providing the most benefit/payback such as loan, cash surrender and conversion processing are being developed first. Phase II is scheduled for completion by February 1988.

The inquiry capability of the on-line terminal system has enabled us to eliminate the need for obtaining record printouts, and, in many cases, insurance files no longer have to be requested in order to respond to inquiries from policyholders. Correspondence is now answered using information displayed on the inquiry screens. This change alone has reduced our response time to insureds.

An important advantage of having an on-line data entry system is that it will perform extensive front-end edits on the transactions that are entered in the VDT's. These edits will assure that a transaction is properly entered and formatted before it is introduced into the system. If it is not, the operator will have the opportunity to make the necessary corrections. The ability to edit and correct transactions before they are submitted for processing will substantially improve the quality and timeliness of the service we provide.

In conjunction with the implementation of ITS we are also involved in modifying our current Automatic Data Processing (ADP) programs. The current ADP programs are written in obsolete second generation language known as "7080 Autocoder." These Autocoder programs are extremely difficult to maintain or modify and as a result, significant lead time is required to implement and support the type of program enhancements we discussed earlier.

In an effort to upgrade the Insurance ADP programs, ODM&T elected to reprogram (convert) the Insurance system into COBOL, a modern computer language; the expected result being an ADP system that is more flexible and more easily maintained.

Another area in which we are upgrading our technology is remittance processing. In 1984, the Department of Veterans Benefits (DVB) conducted a study of the Insurance Remittance Processing System (Collections) in conjunction with the "Reform 88" project. The purpose of this study was to determine whether the Government could achieve any savings by contracting out the insurance program's remittance processing function to one of the banks included in the Treasury Department's Lock Box Network.

The study determined that with the replacement of our existing outdated remittance processing system, the cost of remittance processing for our own in-house collections activity was lower than the commercial lockbox alternative. We have, consequently, issued a Request for Proposal (RFP) for the replacement of our current system.

I would like now to turn to a discussion of the financial status of the insurance programs administered by the VA. As I stated at the outset - the programs are in excellent financial condition.

The Insurance Trust funds were established to ensure that each insurance program is adequately funded to meet all of its future liabilities. From the premiums received, a sufficient amount (reserve) is set aside to meet future obligations. The reserves are maintained on an actuarial basis, claims are paid from the funds, and dividends are distributed to the insureds from mortality savings and excess interest earnings.

Investments are under the jurisdiction of the Treasury Department. From the inception of the programs, Congress has directed that the funds be invested in interest-bearing obligations of the Federal government. The apparent intent of the Congress was that these funds be invested at rates which approximate current Treasury borrowing rates.

In 1960, an agreement was reached between Treasury and the VA concerning the investment of USGLI and NSLI trust funds. This agreement adopted a formula for fixing interest rates based upon current market yields. The formula also provided that the investments bear interest one-half of one percent lower than the rate of the average market yields. The agreement further established a floor of 3½ percent interest for USGLI invested funds and a 3 percent floor for NSLI. The one-half percent deduction was in consideration of the guaranteed floors of 3½ and 3 percent returns. In 1967, the one-half percent reduction below average market yields was lowered to one-quarter percent for NSLI investments.

In 1984, we renegotiated our investment agreement with Treasury. As a result of the renegotiations, Treasury has agreed to forego the interest "premiums," the one-half and one-quarter percent reductions below the market yield rates, in return for elimination of the minimum guaranteed interest rates. This new agreement applies to all trust funds invested on or after January 1, 1985. The Insurance Actuarial Staff has reviewed the NSLI and USGLI investment portfolios and has determined that there is no risk associated with the foregoing of the guaranteed interest rates of 3 and 3½ percent.

While the applicable provisions of the law concerning the investment of USGLI and NSLI ("V") funds are not specific as how the rate of interest on investments is to be determined, the law is specific for the VSLI and VRI fund investments.

The specific investment formula for each program is provided in Exhibit B-1. This exhibit also provides the total amount invested for each program in Treasury securities and the amount loaned to policy owners with their respective average rates of return (90 percent of all reserves is invested in U.S. securities; the remaining 10 percent is "invested" in policy loans). Exhibit B-2 depicts a pie chart breakdown between U.S. Treasury investments and policy loans for all funds combined.

The Treasury investments are credited with interest on a semiannual basis. The interest earnings are reinvested together with any securities that mature. The yield on each of these securities is determined by the formulas mentioned above and remain fixed through maturity. Exhibit B-3 provides the current portfolio arrangement for each of the funds.

Although we are required to invest in U.S. Treasury securities, the rate of return on such investments compares favorably with the rate of return for the industry as a whole. According to the American Council of Life Insurance, the rate of return before taxes on the aggregate assets of commercial life insurance companies was 9.45 percent in 1984. By comparison, the rate of return on investments in Treasury securities yielded 9.04 percent for our trust funds in 1984, which are not subject to either Federal or state taxes.

Therefore, although commercial life insurance companies may diversify their portfolio by investing in mortgages, corporate bonds, common and preferred stocks, and real estate, as well as in U.S. Treasury securities, our policyholders receive a comparable rate of return. Exhibit B-4 compares the yield on NSLI Treasury securities with the average net rate of investment income based on aggregates of all United States life insurance companies after investment expenses, but before taxes.

The average yield on our investments should be distinguished from the interest rate on new investments in U.S. securities. As of December 31, 1984, new NSLI investments were earning 11.43 percent interest. The average yield is based on our entire portfolio which includes older securities that were invested at much lower rates.

Another advantage of our investment policy is the fact that our securities are liquid and are, therefore, flexible. Many commercial insurance companies, on the other hand, have significant investments in fixed assets, like real estate, and they experienced serious cash flow problems in the last few years as a result of unusually high demands for policy loans and cash surrenders.

Overall, the experience of the trust funds has been very favorable compared to commercial companies, especially when considering that these investments are totally risk-free, liquid and nontaxable.

In the area of cash management, we have adopted an aggressive program that enables us to deposit 97 percent of the remittances we receive in Philadelphia on the same day that they are received. The St. Paul and Philadelphia offices receive an average of 45,000 remittances each day, which represents $2.2 million in premiums and loan repayments.

Although the USGLI, NSLI, VSLI and VRI programs are self-supporting, title 38, U.S.C. requires that the United States bear the costs associated with administering the Government life insurance programs. The only exception is the Veterans Reopened insurance (VRI).

During fiscal year 1984, the total administrative cost attributable to the insurance programs was $27,566,000. Of this amount, $490,000 was reimbursed from the SGLI fund for supervision of the SGLI and Veterans Group Life Insurance (VGLI) programs. A total of $1,161,000 was reimbursed from the VRI fund as required by law for administration of the VRI program. The net cost borne by the Government was, therefore, $25,915,000. This represented an average of $6.53 per policy maintained for fiscal year 1984.

I would now like to turn to a discussion of the insurance programs supervised by the VA. They include the SGLI and VGLI programs and the Veterans' Mortgage Life Insurance (VMLI) program. Statistical data on each program is provided in Exhibits C-1 through C-3.

The SGLI program is by far the largest of the three group programs. As of the end of the policy year ending June 30, 1985, in excess of $119.3 billion in full-time insurance protection was being provided to 3.4 million members of the uniformed services, ready reserves and retired reserves.

SGLI was instituted in 1965, to meet the insurance needs of the Vietnam-era servicemember. Unlike the previous, VA-administered programs that provide individually underwritten and issued policies, the law creating SGLI provided for group coverage. In addition, SGLI was to be administered by the commercial industry, and not the Government. Thus, the establishment of SGLI resulted in the Administrator of Veterans' Affairs purchasing from the primary insurer, the Prudential Life Insurance Company of America, what was at the time the largest group policy in the world. Prudential administers the program from the Office of Servicemen's Group Life Insurance (OSGLI), located in Newark, New Jersey.

Since the program's inception, it has undergone several significant modifications to meet the changing insurance needs of those it was designed to protect. Perhaps the more notable of these developments have been the program coverage expansions and the increase in the amount of coverage.

Initially, SGLI was available only to members on active duty in the uniformed services of the Army, Navy, Air Force, Marine Corps, Coast Guard, Commissioned Corps of the United States Public Health Service and the National Oceanic and Atmospheric Administration of the United States of America. Today it is also available to all reservists, members of the National Guard and ROTC, while engaged in authorized training, cadets and midshipmen of the service academies, and members of the Ready and Retired reserves. In addition, the amount of protection available has been increased from $10,000 to $35,000. Legislation is currently pending to increase SGLI coverage to $50,000.

The premiums collected under the SGLI program have been sufficient to cover all SGLI costs, except those attributable to the extra mortality costs due to the hazards of military service. By law, those costs are paid by the Uniformed Services from their appropriations for active duty pay and are based on the mortality experience of their members, as compared with expected "peacetime" mortality projections. During the Vietnam War, over $508 million was paid by the uniformed services to cover the extra-hazard costs. No extra mortality costs, however, have been charged to the uniformed services since policy year 1975.

The most notable development in the SGLI program since our last oversight hearing was the further reduction of premiums for Active Duty members and Ready Reservists. Effective July 1, 1984, the monthly rate was reduced from $.116 to $.08 per $1,000 of coverage. The new premium for the maximum coverage of $35,000 is $2.80 as compared to the former rate of $4.06 per month. This 31 percent reduction has resulted in overall annual savings of $33.2 million for Active Duty personnel and $14.2 million for Ready Reservists.

The SGLI rate reduction is the result of increased interest earnings and a continuing favorable mortality experience which had caused the program's contingency reserve to increase over the last several years. In order to reduce the contingency reserve to an appropriate level, the new premium has been set at considerably below the "break-even" rate of approximately $.126 per month per $1,000 of insurance. As a result, gradual premium increases will be required in the future as experience warrants.

For Retired Reservists, the cost of SGLI coverage per $1,000 is 30 cents for those age 39 and under, 40 cents for ages 40 through 49, and 50 cents for those age 50 and over. To date, the premiums collected from the Retired Reservists have not been sufficient to cover their mortality and expense costs. To cover the additional costs and maintain an attractive premium rate structure, internal transfers from the basic SGLI fund have been required. During policy year 1984, nearly $4.7 million was transferred to subsidize the 28,213 Retired Reservists and cumulatively, over $55.8 million has been transferred from the basic SGLI fund.

Attached you will find a copy of the Statement of Annual Accounting covering the SGLI program for policy year 1984 (Exhibit D).

We are currently considering a proposal to exempt the program from paying state premium taxes, under the rationale that SGLI, as a federal program, should be exempted from state taxation. Also, the Federal Employees Group Life Insurance (FEGLI) program, which is similar to the SGLI program, has been specifically exempted by legislation from state premium taxes. Any savings accruing from this proposal would be passed on to the insured members. Since the SGLI program's inception in 1965, through June 1984, nearly $46 million has been paid in state premium taxes. Annually, approximately $3.4 million is paid in state premium taxes.

The Veterans' Insurance Act of 1974, in addition to extending SGLI coverage to Ready and Retired Reservists, created the Veterans' Group Life Insurance (VGLI) program. VGLI is a program of post-separation insurance which provides for the conversion of SGLI to a five year, nonrenewable term policy. At the end of the five year period, VGLI may be converted to a commercial, permanent plan policy with any one of about 300 participating life insurance companies.

Currently, approximately $7.26 billion in insurance coverage protects 258,000 veterans under the VGLI program. Similar to the situation discussed above regarding Retired Reservists, the premiums collected in the VGLI program have not been sufficient to cover mortality and expense costs. During policy year 1984, $14.6 million was transferred from the basic SGLI fund to subsidize over 305,000 VGLI insureds and cumulatively, over $122.3 million has been transferred.

Over the past several years participation in the VGLI program has decreased rather sharply. In response, various VGLI program and marketing changes are under review and development. Our principal effort in this regard concerns the treatment of VGLI at the time of separation. Both the VA and the OSGLI would like to make it possible for an individual to apply for VGLI during the separation process and have the initial premium payment deducted from his or her final service pay. We believe we will be able to offer a substantial first year premium discount to those individuals who apply prior to separation. The premium, along with the application, would then be forwarded to the OSGLI. We are presently working with the Department of Defense (DoD) in this regard. Another area in which we are currently working with the DoD and Service Departments concerns the payment of VGLI premiums by an allotment from service retired pay.

We are also working with the DoD to develop an informational film regarding all VA benefits, to be shown during the separation process. Among other things, the film will describe the role of insurance in general, and the advantages of VGLI in particular.

I will now turn to the VMLI program. In 1971, Congress authorized the VA to purchase, from one or more life insurance companies, a policy or policies of mortgage protection life insurance on a group basis for seriously disabled veterans who have received VA grants for specially adapted housing. VMLI is currently provided through a group policy which the VA has secured from Bankers Life Insurance Company of Nebraska. The program is supervised by the VA and administered by Bankers Life through the Office of Veterans' Mortgage Life Insurance, located in Lincoln, Nebraska. A maximum of $40,000 in mortgage protection insurance is afforded to a veteran who receives a VA housing grant, provided he resides in a residence which he owns and which is encumbered by a mortgage on which he or she has a liability. The protection is automatic unless the veteran declines in writing or fails to furnish required information.

There are currently 5,944 active accounts, representing $182 million in coverage. Since the inception of the program, 2,522 claims have been paid, representing $50.1 million. The Government bears the administrative costs of the program and all costs for claims in excess of premiums paid by the insured veterans. The total Government subsidy for calendar year 1984 amounted to $3.6 million.

Mr. Chairman, this concludes my prepared remarks. I shall be pleased to answer any questions you may have.

INDIVIDUAL PROGRAM SUMMARIES

VA ADMINISTERED INSURANCE PROGRAMS

UNITED STATES GOVERNMENT LIFE INSURANCE	EXHIBIT A-1
NATIONAL SERVICE LIFE INSURANCE	EXHIBIT A-2
VETERANS SPECIAL LIFE INSURANCE	EXHIBIT A-3
SERVICE-DISABLED VETERANS INSURANCE	EXHIBIT A-4
VETERANS REOPENED INSURANCE	EXHIBIT A-5

EXHIBIT A

UNITED STATES GOVERNMENT LIFE INSURANCE
(Policy Numbers Prefixed With "K")

Program Summary:

The War Risk Insurance Act of 1917 authorized the issuance of yearly renewable term policies to service personnel in amounts ranging from $1,000 to $10,000. These policies were issued from October 6, 1917, until June 7, 1924, when authority for their issuance was rescinded by act of Congress. During that period, approximately 4.4 million policies were issued for a face amount of over $40 billion of insurance. The final expiration date for any yearly renewable term policy not converted to a permanent plan or a five-year convertible term policy was July 2, 1927, unless the policyholder became disabled prior to that date.

The USGLI program was established in 1919 to handle the direct issuance of new permanent plan policies and conversions from War Risk term insurance. Very few new USGLI policies were actually issued until after June 7, 1924, however, when the issuance of War Risk term policies was terminated. New insurance could only be issued upon entry into the services until May 29, 1928, when the law was amended to permit anyone, in or out of service, who served honorably during World War I, to apply for new insurance at any time. The USGLI program was closed to new issues on October 8, 1940, except for World War I veterans who could apply for such coverage until April 25, 1951.

A total of approximately 1.15 million USGLI policies were issued, of which about 600,000 were in force in 1940 when the program closed to new issues for all but World War I veterans. The amount of insurance in force is currently decreasing at the rate of 9.4 percent per year. As of December 31, 1984, only 68,682 of the original 1.15 million USGLI policies issued still remain in force.

Beneficiary and Option Selection:

Initially, beneficiaries were limited to the insured's closest relatives by blood, marriage, adoption or loco parentis. However, all restrictions on the designation of beneficiary were removed on May 29, 1928. Thereafter, an insured could name any person, firm, corporation or other legal entity (including his or her estate) as beneficiary, either individually or as trustee. If no beneficiary survives the insured, payment is made to the insured's estate in one sum.

Prior to June 7, 1924, death claims were paid in 240 monthly installments or in a monthly life income with 240 payments guaranteed. Since that date, the insured may select payment to his or her beneficiary in a lump sum, or in installments with interest over a period of 36 to 240 months, or as a monthly life income with 120 or 240 payments guaranteed. If the insured selected monthly payments and the principal and contingent beneficiary dies before receiving all of the guaranteed installments, the present value of the unpaid installments is payable to the estate of the last surviving beneficiary.

EXHIBIT A-1

Disability Provisions:

All USGLI policies, except the Special Endowment at Age 96 plan, contain a provision which matures the policy upon the insured's total permanent disability. The proceeds are payable in installments of $5.75 monthly per $1,000 of insurance as long as the insured remains totally and permanently disabled, with 240 payments guaranteed. If the insured dies before all guaranteed installments have been paid, the balance is payable to his or her named beneficiary. No additional premium is charged for this provision, nor is there any limitation as to the age at which such disability may occur. As of December 31, 1984, 3,340 USGLI policyholders were receiving monthly payments under this provision.

On May 28, 1928, Congress authorized the issuance of an optional provision against total disability lasting 12 consecutive months or longer, and commencing at any age. The law was amended on July 3, 1930, to permit the writing of a provision against total disability lasting four months or longer and starting prior to age 65. As with the previous provision, payments are made at the rate of $5.75 monthly per $1,000 of coverage, however, unlike total permanent disability payments they do not reduce the face amount of insurance. This total disability provision could be attached to a policy upon application, satisfactory evidence of health, and the payment of an additional premium depending on the insured's age and the type of policy in force.

A finding of total disability also results in a waiver of premiums on the basic contract and on the disability rider. The payment of monthly income benefits under the total disability provision may be concurrent with or independent of the payment of the permanent disability benefits under the basic contract.

Premium Payments:

Effective January 1, 1983, VA Regulations were amended to provide that the payment of premiums is no longer required on USGLI policies. This decision resulted from an actuarial determination that the reserves held in the USGLI fund, together with future interest earnings, are adequate to meet the future liabilities of the program. USGLI premiums are based on the American Experience Table of Mortality and on guaranteed interest values of 3½ percent. Mortality savings have been substantial due to a significant increase in life expectancy since the American Experience Table of Mortality was published. Likewise, the difference between current USGLI fund investment earnings and the 3½ percent guaranteed interest values has resulted in significant excess interest earnings, which have been distributed each year as part of the annual dividend declaration. As a result of this regulation change, USGLI policyholders no longer face the risk of having their policies lapse due to nonpayment of premiums. Approximately 22,900 policyholders were on premium paying status at the time of the regulation change.

EXHIBIT A-1

Financial Aspects:

Cash values and settlement options are based on the American Experience Table of Mortality with 3½ percent interest. The USGLI program is self-supporting except for administrative expenses and claim losses traceable to the extra occupational hazard of service in the Armed Forces. Since 1921, dividends have been paid annually based on the USGLI fund's own experience. The 1985 dividend distribution will amount to $15.3 million. USGLI trust fund assets are invested in Special U.S. Securities and loans to policyholders. Investments total $324.3 million and the average rate of return is 7.152 percent.

Program Statistics:

Opening Date	September 29, 1919
Closing Date (Non-World War I Veterans)	October 8, 1940
Closing Date (World War I Veterans)	April 24, 1951
No. of Policies Issued (new issues and conversions from War Risk Term Insurance.	1,153,000
Face Value of Policies Issued	$4,857,600,000
Average Amount Per Policy Issued	$4,213
No. of Five-Year Term Policies in Force	378
No. of Permanent Plan Policies in Force	68,304
Face Value of Policies in Force	$268,896,670
Average Amount Per Policy in Force	$3,915
Average Attained Age in 1984	78.5 years
Average Annual Death Rate	92.1 per 1,000
Total Investments of USGLI Fund	$324,342,677
Average Rate of Return on All Investments (As of December 31, 1984)	7.152%
Total Disbursements in 1984	$56,776,266

EXHIBIT A-1

NATIONAL SERVICE LIFE INSURANCE
(Policy Numbers Prefixed with "V," "H," "N" or "AN")

Program Summary:

The imminence of large scale military inductions prior to World War II resulted in the enactment of legislation on October 8, 1940, which created a new insurance program known as National Service life Insurance (NSLI). This legislation also closed the United States Government Life Insurance (USGLI) program to new issues for all but World War I veterans. The NSLI program was established in order to protect the USGLI fund surplus from depletion due to wartime claims and to permit updated total disability and beneficiary selection provisions. Incoming service personnel who met the good health requirements were eligible to apply for the issuance of five-year, non-renewable term policies in sums ranging from $1,000 to $10,000, which were convertible to permanent insurance after one year.

The end of World War II brought several changes similar to those which occurred after World War I. The Insurance Act of 1946 provided the following:

a. Removal of restrictions on beneficiary selection

b. Expanded optional settlements, including lump sum

c. An optional total disability income provision

d. Additional permanent plans available for conversion from term insurance

e. Availability of insurance to World War II veterans who were no longer in service

f. Availability of insurance to World War II veterans lacking coverage due to a service-connected disability less than total in degree

Subsequent legislation provided that permanent plan insurance could be issued without preexisting term coverage and that the term policies in force could be indefinitely renewed. The Insurance Act of 1951 closed both the NSLI and USGLI programs to new issues on April 24, 1951.

Over 22 million policies were issued under the NSLI program, of which 3,177,453 remain in force, for a total amount of $20,246,526,925 of insurance coverage.

EXHIBIT A-2

Beneficiary and Option Selection:

As originally established, the class of eligible beneficiaries was limited to only the insured's closest relatives. Since August 1, 1946, however, an insured may name any person, firm, corporation or other legal entity (including his or her estate) as beneficiary, either individually or as trustee. If no beneficiary survives the insured, payment will be made to the insured's estate in one sum.

Prior to September 30, 1944, death claims were paid only in 240 monthly installments if the beneficiary was under age 30, or in a life income with 120 guaranteed payments if the beneficiary was age 30 or over when the proceeds became payable. The refund life income settlement option became available on September 30, 1944, and the lump sum settlement was added on August 1, 1946. The insured may now select payment to his or her beneficiary under any of the above settlement options. If the named beneficiaries die before receiving all guaranteed payments under an installment settlement option, the present value of the unpaid installments is payable to the insured's estate.

Disability Provisions:

All NSLI policies provide a waiver of premiums at no extra premium based on the insured's total disability lasting six months or longer and starting prior to age 65. After World War II, the law was changed to permit the writing of an optional Total Disability Income Provision available at an extra premium in addition to the automatic premium waiver feature. Payments are made at the rate of $5.00 or $10.00 monthly per $1,000 of coverage as long as the insured's total disability continues.

Gratuitous Insurance ("AN" Prefix):

In order to avoid inequities to certain classes of servicepersons, gratuitous insurance was granted to those individuals who were captured, besieged, or isolated by enemy forces for a period of 30 days or more, beginning after December 7, 1941, and extending through April 19, 1942; and for other servicepersons who died or became totally disabled for six months or longer, after October 8, 1940, and before April 20, 1942. The amount of gratuitous insurance was the difference between $5,000 and the amount of Government life insurance carried by the individual. This insurance remained in force for a specified period after the insured ceased to be totally disabled or returned from captivity. Thereafter, the insured was required to make premium payments or submit evidence of entitlement to waiver of premiums.

"H" Insurance:

Included in the 3,177,453 total NSLI accounts are 3,228 "H" accounts. This insurance was issued between August 1, 1946, and December 31, 1949, to certain veterans with service-incurred disabilities. This insurance has the same premium rates and policy provisions as "V" insurance except that it is nonparticipating (i.e., the policyholders do not receive dividends).

EXHIBIT A-2

Financial Aspects:

Premiums, reserves and settlement options are based on the American Experience Table of Mortality with 3 percent interest. Like the USGLI program, the NSLI program is self-supporting except for the administrative expenses, and the claim losses traceable to the extra occupational hazard of service in the Armed Forces. Since 1950, dividends have been paid annually based on the NSLI fund's own experience. The 1985 dividend distribution will amount to $688.2 million. NSLI trust fund assets are invested in Special U.S. Securities and loans to policyholders. Investments total $10.5 billion and the average rate of return is 9.167 percent.

Program Statistics:

Opening Date	October 8, 1940
Closing Date	April 24, 1951
No. of Policies Issued	22,177,000
Face Value of Policies Issued	$173,765,000,000
Average Amount Per Policy Issued	$7,835
No. of Five-Year Term Policies in Force	978,122
No. of Permanent Plan Policies in Force	2,199,331
Average Amount Per Policy in Force	$6,372
Average Attained Age in 1984	61.8 years
Average Annual Death Rate	17.7 per 1,000
Total Investments of NSLI Fund	$10,485,023,890
Average Rate of Return on All Investments (As of December 31, 1984)	9.167%
Total Disbursements in 1984	$1,416,340,211

EXHIBIT A-2

VETERANS' SPECIAL LIFE INSURANCE
(Policy Numbers Prefixed with "RS" or "W")

Program Summary:

On April 25, 1951, Congress enacted the Servicemen's Indemnity Act and the Insurance Act of 1951 in order to meet the insurance needs of the Korean Conflict. These laws made the following changes to the insurance situation:

a. Provided automatic, free insurance of $10,000 (less any existing Government life insurance) for every person on active duty from April 25, 1951, through December 31, 1956

b. Prohibited the further issuance of NSLI or USGLI, except as a replacement for policies surrendered in order to obtain free insurance under the Servicemen's Indemnity Act

c. Authorized a waiver of premiums on existing USGLI or NSLI policies for active duty personnel through December 31, 1956

d. Authorized the issuance of Service-Disabled Veterans Insurance (SDVI) to veterans formerly covered under Servicemen's Indemnity, where a service-connected disability existed after the termination of active duty

e. Authorized the issuance of VSLI upon termination of active duty to veterans who had been covered by the Servicemen's Indemnity

Insurance under the VSLI program was available, without medical examination, to veterans separated from service on or after April 25, 1951, and before January 1, 1957. Application had to be made within 120 days after separation, and insurance was available in amounts up to $10,000, less any existing NSLI or USGLI. Approximately 800,000 policies were issued, of which 376,774 remain in force for a total amount of $3,186,179,841 insurance coverage.

Beneficiary and Option Selection:

The law provides that the insured may select any person, firm, corporation or other legal entity (including his or her estate) as beneficiary, either individually or as trustee. If no beneficiary survives the insured, payment is made to the insured's estate in one sum. Settlement options include lump sum, installments with interest over a period of 36 to 240 months, a monthly life income with 120 payments guaranteed or a refund life income. If no beneficiary survives to receive all guaranteed installments, the present value of the unpaid installments is payable to the insured's estate in one sum.

Disability Provisions:

All VSLI policies provide for a waiver of premiums at no extra premium based on the insured's total disability lasting six months or longer and starting prior to age 65. An optional total disability income benefit covering disability occurring before age 65, providing a monthly income of $10 per $1,000 of insurance, is available at an extra premium.

EXHIBIT A-3

"W" Exchanges or Conversions:

As originally enacted, only five-year level premium term policies ("RS" prefix) were available under the VSLI program. A 1959 legislative change permitted "RS" policyholders to convert to permanent plans, or to exchange their policies for special lower premium term insurance. These newer policies are identified by the prefix "W." To avoid "W" term insurance being retained into advanced ages (when premiums become very high), these policies must be converted to permanent insurance at or before the end of the term period in which the insured reaches age 50, or coverage ceases. During 1984, over 63 percent of the "W" term policies in force reached their final conversion dates. By contrast, we expect that figure to decrease to about eight percent in 1985, and to less than seven percent in 1986. Conversion information and applications are automatically mailed to "W" term policyholders on two occasions during the year prior to the expiration dates of their insurance.

Financial Aspects:

"RS" premium rates are based on the Commissioners 1941 Standard Ordinary Table at 2½ percent interest. "W" premium rates are based on the X-18 mortality table with interest at 2½ percent. The VSLI program is self-supporting except for administrative expenses.

The program was established by law on a nonparticipating basis, i.e., the policyholders did not receive dividends. However, favorable claim rates and rising interest levels resulted in the accumulation of a surplus over necessary reserves. Accordingly, the program was made participating in 1974, and the first dividend of $6.1 million was paid in 1975. The 1985 dividend distribution will amount to $65.8 million.

VSLI fund assets are invested in Special U.S. Securities and loans to policyholders. Investments total $990.7 million at an average rate of return of 8.522 percent.

EXHIBIT A-3

Program Statistics:

Opening Date	April 25, 1951
Closing Date	December 31, 1956
No. of Policies Issued	803,111
Face Value of Policies Issued.	$7,349,178,500
Average Amount Per Policy Issued	$9,151
No. of Five-Year Level Premium Term Policies in Force	32,876
No. of Five-Year Limited Convertible Term Policies in Force.	58,849
No. of Permanent Plan Policies in Force.	285,049
Face Value of Policies in Force.	$3,186,179,841
Average Amount Per Policy in Force . . .	$8,456
Average Attained Age in 1984	52.4 years
Average Annual Death Rate.	6.1 per 1,000
Total Investments of VSLI Fund	$990,712,032
Average Rate of Return on All Investments (As of December 31, 1984).	8.522%
Total Disbursements in 1984.	$112,558,897

EXHIBIT A-3

SERVICE-DISABLED VETERANS' INSURANCE
(Policy Numbers Prefixed with "RH" or "ARH")

Program Summary:

The Insurance Act of 1951 authorized the issuance of new insurance policies ("RH" prefix) to veterans separated from service on or after April 25, 1951, who are suffering from a service-connected disability but who are otherwise insurable. Coverage is available in amounts from $1,000 to $10,000 and, in general, must be applied for within one year from the date of the notice to the insured that he or she has been rated disabled by the Veterans Administration. Although information on SDVI is periodically released by our information services, eligible veterans are also sent two notifications concerning possible entitlement. This is the only program of Government life insurance which is still open to new issues.

All plans of insurance are available unless the veteran is totally disabled at the time of application, in which case the endowment plans are not available.

Since the SDVI program's inception in 1951, 295,728 policies have been issued, for a total of $2,705,598,600 of insurance coverage. We are currently issuing approximately 5,000 policies per year.

Beneficiary and Option Selection ("RH" policies only):

The law provides that the insured may select any person, firm, corporation or legal entity (including his or her estate) as beneficiary, either individually or as trustee. If no beneficiary survives the insured, payment is made to the insured's estate in one sum. Settlement options include lump sum, installments with interest over a period of 36 to 240 months, a monthly life income with 120 payments guaranteed, or a refund life income. If no beneficiary survives to receive all guaranteed payments, the present value of the unpaid installments is payable to the insured's estate.

Disability Provisions:

All SDVI policies provide for a waiver of premiums at no extra premium based on the insured's total disability lasting six months or longer and starting prior to age 65. Unlike other Government life insurance programs, a total disability premium waiver may be granted in cases where the disability commenced prior to the effective date of the policy, providing that the disability is service-connected. The optional Total Disability Income Provision is not available under this program.

EXHIBIT A-4

Gratuitous SDVI ("ARH" Prefix):

Legislation was enacted in 1958 to protect those veterans who become incompetent from a service-connected disability while eligible to apply for SDVI, but who die before application is filed. Such veterans are deemed to have applied for $10,000 of insurance (less any existing Government life insurance), which is issued posthumously, and is payable to a preferred class of the insured's relatives in monthly installments. Since 1958, a total of $5,312,397 in gratuitous SDVI beneficiary payments have been made.

Financial Aspects:

Premium rates are calculated on the Commissioners 1941 Standard Ordinary Table at 2½ percent interest, with no charge for administrative cost. The annuity options are based on the Annuity Table for 1949, with 2½ percent interest. Since the program insures medically substandard lives at standard rates of premium, it is not self-supporting and does not participate in dividends. The excess cost of claims for the program is met by periodic Congressional appropriations.

Program Statistics ("RH"):

Opening Date.	April 25, 1951
Closing Date.	Open
No. of Policies Issued.	295,728
Face Value of Policies Issued	$2,705,598,600
Average Amount Per Policy Issued.	$9,149
No. of Five-Year Term Policies in Force .	85,809
No. of Permanent Plan Policies in Force .	102,564
Face Value of Policies in Force	$1,707,932,912
Average Amount Per Policy in Force. . . .	$9,067
Average Attained Age in 1984.	43.4 years
Average Annual Death Rate	11.7 per 1,000
Total Disbursements in 1984	$35,653,189
Percentage of Policies on Premium Waiver.	22.6%

VETERANS' REOPENED INSURANCE

(Policy Numbers Prefixed with "J," "JR" and "JS")

Program Summary:

In 1964, Congress enacted legislation which provided for a limited reopening of NSLI for a period of one year beginning May 1, 1965, to veterans (not on active duty at date of policy issue) who met the following conditions:

1. They must have been eligible to obtain NSLI between October 8, 1940, and January 1, 1957, and

2. They must have had either:

a. A service-connected disability which was compensable, or would have been compensable if it were rated 10 percent or more in degree, without any serious nonservice-connected disability which would have disqualified them for standard insurance (prefixed with "J" or "JR"), or

b. A nonservice-connected disability, or combination of service-connected and nonservice-connected disabilities, so serious that they could not obtain commercial insurance at the highest rates (prefixed with "JS").

All plans of insurance available under the NSLI program, except term insurance, are available under the Veterans' Reopened Insurance (VRI) program. Approximately 227,900 policies were issued under this program, of which 151,770 remain in force for a total of $1,013,594,053 of coverage.

Beneficiary and Option Selection:

The law provides that the insured may select any person, firm, corporation or legal entity (including his or her estate) as beneficiary, either individually or as trustee. If no beneficiary survives the insured, payment is made to the insured's estate in one sum. Settlement options include lump sum, installments with interest over a period of 36 to 240 months, a monthly life income with 120 payments guaranteed, or a refund life income. If no beneficiary survives to receive all guaranteed installments, the present value of the unpaid installments is payable to the insured's estate in one sum.

Disability Provisions:

All VRI policies provide for a waiver of premiums at no extra premium based on the insured's total disability lasting six months or longer and starting prior to age 65. An optional total disability income benefit covering disability occurring before age 65 is available to "J" policyholders, however, it is not available on policies prefixed by "JR" or "JS." Payments are made at the rate of $10 monthly per $1,000 of coverage, as long as the insured's total disability continues.

EXHIBIT A-5

Financial Aspects:

As originally established, premium rates were calculated on the 1958 Commissioners Standard Ordinary Basic Mortality Table at 3½ percent interest, plus an additional premium to cover the administrative cost of the program. The policy charge for this cost has been set at 42 cents monthly per policy. The annuity options are based on the Annuity Table for 1949, with 3½ percent interest. The program is completely self-supporting.

Favorable claim rates and rising interest levels made possible a reduction in premiums, effective October 1970, for all "J" prefixed policies, i.e., those policies issued at standard rates. This reduction averaged about 18 percent of the premiums, and affected approximately 85 percent of all policies in the VRI program. In 1976, "J" policy premiums were further reduced by 22 percent and, for the first time, "JR" policy premiums were reduced by 34 percent.

In 1977, we determined that the reserves held in the VRI fund, together with future interest earnings, were adequate to pay all future claims for the "JS" prefix policies. As a result of this determination, all "JS" policies were declared paid up as of their anniversary dates in October 1977. All policyholders were notified and any premiums paid beyond September 1977 were refunded.

All segments of this program ("J," "JR," "JS") were made participating by a change in the law in November 1979. The initial dividends were paid on the policy anniversary dates in 1980. The 1985 dividend distribution will amount to $29.5 million.

VRI trust fund assets are invested in Special U.S. Securities and loans to policyholders. Investments total $587,258,127 at an average rate of return of 9.681 percent.

Termination Dividend:

In addition to the payment of the regular annual dividends, commencing January 1, 1985, termination dividends will be paid at the time JR and JS policies are terminated by the death of the policyholder, cash surrender, or maturity of the policy. The termination dividends will be paid to the policyholders' beneficiaries in death cases, or to the policyholders directly in cases where the policies mature or are cash surrendered. In 1985, termination dividends of approximately $898,000 will be paid to an estimated 1,693 JR and JS policyholders or beneficiaries. Policies which are in a nonforfeiture status as of December 31, 1984, (i.e., reduced paid-up or extended term) will not be eligible for the termination dividend.

EXHIBIT A-5

Program Statistics:

Opening Date	May 1, 1965
Closing Date	May 2, 1966
No. of Policies Issued	227,882
Face Value of Policies Issued	$1,601,504,500
Average Amount Per Policy Issued	$7,028
No. of Policies in Force	151,770
Average Amount Per Policy in Force . . .	$6,678
Face Value of Policies in Force.	$1,013,594,053
Average Attained Age in 1984	61.7
Average Annual Death Rate.	17.9 per 1,000
Total Investments of VRI Fund.	$587,258,127
Average Rate of Return on All Investments (As of December 31, 1984). .	9.681%
Total Disbursements in 1984	$69,675,785

EXHIBIT A-5

VA ADMINISTERED INSURANCE PROGRAMS

TRUST FUND INVESTMENT POLICY

Investment Formula - Investments per Program	Exhibit B-1
Pie Chart - Trust Fund Investments	Exhibit B-2
Current Treasury Yields on Investments	Exhibit B-3
Yield on Investments - NSLI vs. Commercial Insurers	Exhibit B-4

EXHIBIT B

INSURANCE TRUST FUND INVESTMENTS

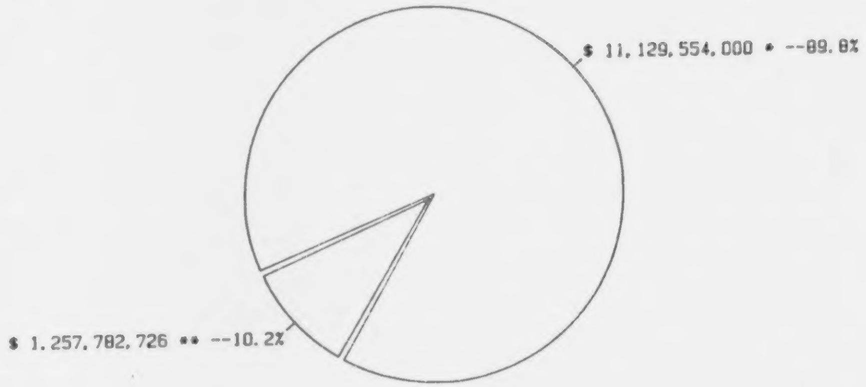
As of June 30, 1985

U.S. Government Securities

Fund	NSLI (V)	USGLI (K)	VSLI (RS/W)	VRI (J,JR,JS)
General Authority	38 U.S.C. 720(b)	38 U.S.C. 755(b)	38 U.S.C. 723(c)	38 U.S.C. 725(d)
Formula for Obtaining the Yield on U.S. Security Investments	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years.) (Minus ½% for funds invested) prior to January 1, 1985). Calculated as of the end of the preceding month.	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 3 years.) (Minus ½% for funds invested) prior to January 1, 1985). Calculated as of the end of the preceding month.	The average rate of interest (coupon rate) borne by all marketable interest-bearing obligations of the U.S., forming a part of the public debt that are not due or callable until after at least 5 years from the date of original issue.	(The average market yield on all marketable interest-bearing obligations of the public debt of the U.S. that are not due or callable until after the expiration of 4 years.) Calculated as of the end of the preceding month.
Portfolio Arrangement	All new and roll-over investments are spread over periods of 1 to 15 years so that there are equal amounts of maturities each June 30 for all funds except "K." Because of cash flow requirements, the investments being made in the "K" fund are all with maturity dates of the next June 30th.			
Formula Established By	1985 Agreement between the VA and Treasury	1985 Agreement between the VA and Treasury	PL 85-896	PL 88-664
Amount Invested in U.S. Government Securities	$9,535,670,000	$276,784,000	$941,892,000	$526,081,000
Average Rate Of Return on all Investments in U.S. Securities	9.632%	7.381%	9.026%	9.885%
Interest Rate on New Investments in U.S. Securities	10.31%	10.38%	11.49%	10.51%
		Policy Loans		
Amount Invested in Policy Loans	$1,076,807,399	$29,308,319	$79,827,597	$38,740,796
Percentage of Trust Fund Investments in Policy Loans	10.15%	9.58%	7.81%	6.86%
Average Rate of Return on Policy Loans	5.093%	4.351%	6.119%	6.430%
		Total Investments		
Amount	$10,612,477,399	$306,092,319	$1,021,719,597	$564,821,796
Rate of Return on all Investments (Loans and U.S. Securities	9.171%	7.091%	8.799%	9.648%

EXHIBIT B-1

Insurance Trust Fund Investments
As of December 31, 1984
U.S. Government Securities – All Funds



Total $12,387,336,726
* Amount Invested in U.S. Government Securities
** Amount Invested in Policy Loans

EXHIBIT B-2

EXHIBIT B-2

VAMDIC - July 1985

INVESTMENT IN U.S. GOVERNMENT SECURITIES AS OF JULY 31, 1985

NATIONAL SERVICE LIFE INSURANCE FUND

				Total Investment Par and Book Value
36X8132	Public Debt Securities	6-3/4%	1986-1992	$ 794,035,000
"	" " "	7%	1986-1990	496,736,000
"	" " "	7-1/4%	1986-1991	611,265,000
"	" " "	7-1/2%	1986-1989	285,820,000
"	" " "	8%	1986-1993	1,233,464,000
"	" " "	8-5/8%	1986-1994	925,372,000
"	" " "	9-1/2%	1986-1995	954,557,000
"	" " "	*10-1/8%	1986	21,730,000
"	" " "	10-1/4%	1986-2000	956,549,000
"	" " "	10-1/2%	1986-1998	823,654,000
"	" " "	12-7/8%	1986-1996	664,388,000
"	" " "	13-1/8%	1986-1997	721,230,000
"	" " "	13-3/8%	1986-1999	889,912,000
36X8132	Participation Certificates	6.20%	Aug. 12, 1988	100,000,000
"	" " "	6.45%	April 8, 1988	35,000,000
				$9,513,712,000

VETERANS SPECIAL LIFE INSURANCE FUND

36X8455	Public Debt Securities	5-7/8%	1986-1989	$ 38,397,000
"	" " "	6-3/8%	1986-1990	50,888,000
"	" " "	6-3/4%	1986-1991	59,795,000
"	" " "	7%	1986-1992	67,616,000
"	" " "	7-1/8%	1986-1993	76,053,000
"	" " "	7-1/2%	1986-1994	71,570,000
"	" " "	8-3/8%	1986-1995	76,379,000
"	" " "	9%	1986-1996	80,207,000
"	" " "	10-3/8%	1986-1997	86,799,000
"	" " "	10-7/8%	1986-1998	102,484,000
"	" " "	11-1/8%	1986-1999	106,764,000
"	" " "	*11-1/2%	1986-2000	125,882,000
				$ 942,834,000

UNITED STATES GOVERNMENT LIFE INSURANCE FUND

36X8150	Public Debt Securities	6-1/2%	1987-1992	$ 44,742,000
"	" " "	6-3/4%	1987-1990	38,724,000
"	" " "	7%	1986-1991	41,781,000
"	" " "	7-1/4%	1986-1989	15,515,000
"	" " "	7-3/4%	1986-1993	106,131,000
"	" " "	8-3/8%	1994	16,463,000
"	" " "	*10-1/8%	1986	2,840,000
"	" " "	10-1/4%	1986	9,716,000
				$ 275,912,000

EXHIBIT B-3

VETERANS REOPENED INSURANCE FUND

36X4010	Public Debt Securities	7-1/8%	1987-1992	$ 42,762,000
"	" " "	7-3/8%	1986-1990	37,624,000
"	" " "	7-1/2%	1986-1991	43,924,000
"	" " "	7-5/8%	1986-1989	29,984,000
"	" " "	8-1/4%	1986-1993	48,790,000
"	" " "	8-3/4%	1986-1994	50,657,000
"	" " "	9-3/4%	1986-1995	46,525,000
"	" " "	*10-1/4%	1986	953,000
"	" " "	10-3/8%	2000	32,010,000
"	" " "	10-3/4%	1986-1998	50,459,000
"	" " "	13%	1986-1996	42,281,000
"	" " "	13-1/4%	1986-1997	45,442,000
"	" " "	13-3/4%	1986-1999	51,019,000
				$ 522,430,000
36X4009	Public Debt Securities	*10-1/4%	1986	42,000
"	" " "	10-3/8%	1986	$ 120,864,000
				$ 120,906,000

SGLI Revolving Fund

*Indicates Interest Rate on Current month investments.

EXHIBIT B-3

Yield On Investments
NSLI Vs. Commercial Life Insurance Companies

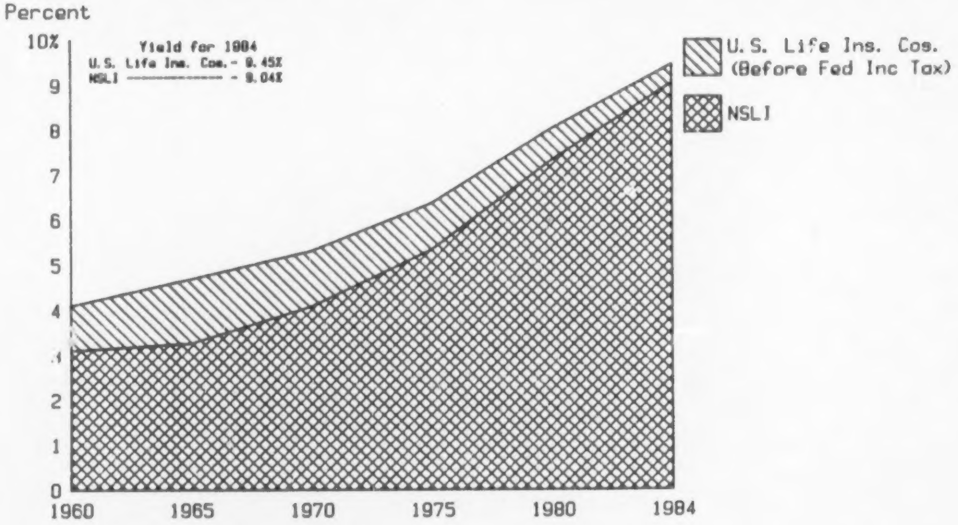


EXHIBIT B-4

VARDIC Philadelphia, Pa. - July, 1985

EXHIBIT B-4

INDIVIDUAL PROGRAM SUMMARIES

VA SUPERVISED GROUP INSURANCE PROGRAMS

SERVICEMEN'S GROUP LIFE INSURANCE	EXHIBIT C-1
VETERANS' GROUP LIFE INSURANCE	EXHIBIT C-2
VETERANS' MORTGAGE LIFE INSURANCE	EXHIBIT C-3

EXHIBIT C

SERVICEMEN'S GROUP LIFE INSURANCE

The Servicemen's Group Life Insurance (SGLI) program provides $35,000 life insurance coverage for individuals currently in the military service and for certain specified periods after separation or release from periods of reserve duty.

The program is supervised by the Veterans Administration but is administered by the Office of Servicemen's Group Life Insurance (OSGLI) under the terms as specified in a group insurance contract.

Full-time coverage is available for commissioned, warrant and enlisted members of the Army, Navy, Air Force, Marine Corps and Coast Guard; and commissioned members of the National Oceanic and Atmospheric Administration and the Public Health Service. Cadets or midshipmen of the four United States Service Academies are also provided full-time coverage.

Full-time coverage is also available to Ready Reservists who are scheduled to perform at least 12 periods of inactive training per year. Persons assigned to, or who upon application would be eligible for assignment to the Retired Reserve, and have not yet received their retirement pay and have not reached 61 years of age, are also eligible for full-time coverage.

Part-time coverage is provided to eligible members of the Reserves who do not qualify for full-time coverage. Part-time coverage is in effect while such members are performing periods of active duty training.

At the present time, there are about 3.4 million members covered by the insurance.

Coverage is automatic (with the exception of Retired Reservists who must apply for coverage) upon entry into a period of active duty or reserve status. If the member does not wish the coverage or desires coverage in an amount less than $35,000, he or she must make such an election in writing.

Full-time coverage is in effect throughout a member's period of active duty or reserve status and for a 120-day free period following separation or release from active duty or reserve status. In addition, members who are totally disabled at the time of separation may also apply for up to a one-year period of free coverage.

Retired Reservists' coverage ceases when a member receives his or her first increment of retired pay, attains age 61 or fails to pay premiums.

Part-time coverage is in effect only on the days of active duty or active duty for training and for periods of travel to and from such duty. Coverage may be extended for a free period of 120 days if a member under part-time coverage incurs a disability or aggravates a preexisting disability while performing a period of duty.

EXHIBIT C-1

The monthly premium rate for active duty members and Ready Reservists is $2.80 for $35,000 or 40 cents per $5,000 insurance if lesser amounts of insurance are elected. The premium rate for part-time coverage is $3.50 per year for $35,000 coverage.

Monthly premium rates for Retired Reservists are as follows:

AGE	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
Thru 39	$10.50	$ 9.00	$ 7.50	$ 6.00	$4.50	$3.00	$1.50
40 thru 49	14.00	12.00	10.00	8.00	6.00	4.00	2.00
50 thru 59	17.50	15.00	12.50	10.00	7.50	5.00	2.50

The proceeds of this insurance can be paid in a lump sum or over a 36-month period, depending on which option the insured selected. Any beneficiary can be named, but in the event none is selected, the insurance devolves by law in the following order: 1) spouse, or 2) children, or 3) parents, or 4) executor of estate, or 5) other next of kin.

The following statistical information is of interest:

Program Issue Dates	September 29, 1965, to present for Active Duty Members May 24, 1974 to present for Ready and Retired Reserve Members
Number of Members Covered	3,435,000
Average Face Amount per Member	$34,754
Total Face Amount in Force	$119,379,745,000
Average Attained Age	28.5 years
Average Annual Death Rate	1.15 per 1,000

DATA COMPILED AS OF JUNE 30, 1985

EXHIBIT C-1

VETERANS' GROUP LIFE INSURANCE

Veterans' Group Life Insurance (VGLI) is a program of post-separation insurance which provides for the conversion of Servicemen's Group Life Insurance (SGLI) to a 5-year nonrenewable term policy at reasonable rates. This program, like SGLI, is supervised by the Veterans Administration but administered by the Office of Servicemen's Group Life Insurance (OSGLI).

At the end of the term period, a member has the right to convert the insurance to an individual commercial life insurance policy with any one of about 330 participating commercial insurance companies.

This insurance is not available to Retired Reservists. Eligible Retired Reservists who do not desire continued SGLI coverage may, however, elect to exercise the conversion privilege if they do so within a 120-day period following separation or release from reserve status.

Persons who are eligible to be covered are members being released from active duty for periods not specified as less than 31 days and Reservists who are preforming training periods of less than 31 days who suffer an injury or disability which renders them uninsurable at standard premium rates.

To apply for coverage, an eligible member must submit an application with the required premium during the 120 days following separation. If a member fails to make application during this period, he or she may still do so for up to one year after SGLI coverage terminates, providing he or she submits evidence of insurability.

If a member is totally disabled at the time of separation and is granted extended free SGLI coverage, he or she may apply for the VGLI anytime during the one year period of extension.

VGLI is issued in amounts of $5,000, $10,000, $15,000, $20,000 $25,000, $30,000 or $35,000, but not for more than the amount of SGLI the member had in force at the time of separation.

Premium payments are made directly to the OSGLI. Upon approval of a VGLI application, the OSGLI will send the insured a certificate and a supply of monthly premium payment coupons. Premiums may also be paid on a quarterly, semiannual or annual basis, provided the appropriate number of payment coupons are submitted with the remittance. There are no provisions for having premiums deducted from VA compensation, however, members may have their premiums paid through an allotment from military retirement pay. Premiums are based on the amount of insurance issued and on the insured's age at the time of issue.

Monthly Premium rates are as follows:

AGE	$35,000	$30,000	$25,000	$20,000	$15,000	$10,000	$5,000
Through 34	$ 5.95	$ 5.10	$4.25	$3.40	$2.55	$1.70	$ .85
35 and over	11.90	10.20	8.50	6.80	5.10	3.40	1.70

EXHIBIT C-2

An application for an incompetent member may be made by a guardian, committee, conservator or curator. In the absence of a court appointed representative, the application may be submitted by a family member or anyone acting in the member's behalf.

The beneficiary and the method of payment of the insurance proceeds for VGLI are the same as those for SGLI.

In order to alert members to the availability of this coverage, an application and explanatory pamphlet is mailed to eligible members 30 days after separation. The packet is mailed to the address shown on the member's DD Form 214 or equivalent separation orders.

The following statistical information is of interest:

Program Issue Dates	August 1, 1974, to present
Number of Members Covered	259,093
Average Face Amount per Member	28,079
Total Face Amount in Force	$7,275,000,000
Average Attained Age	33.2 years
Average Annual Death Rate	2.98 per 1,000

DATA COMPILED AS OF JUNE 30, 1985

EXHIBIT C-2

VETERANS' MORTGAGE LIFE INSURANCE

Veterans' Mortgage Life Insurance (VMLI) is designed to provide financial protection to cover an eligible veteran's outstanding home mortgage in the event of his or her death. The insurance is provided under a group policy issued to the Administrator of Veterans Affairs. The Office of Veterans' Mortgage Life Insurance, P. O. Box 81497, Lincoln Nebraska 68501, has been established to administer the mortgage protection program under the supervision of the Veterans Administration.

The insurance is restricted to those disabled veterans who have received grants for the purchase of specially-adapted housing under the authority of Title 38, United States Code, Chapter 21. Such grants are available to those veterans who are entitled to compensation for service-connected permanent and total disability due to one or more of the following conditions:

1. Loss, or loss of use, of both legs, which precludes locomotion without the aid of braces, crutches, canes, or a wheelchair; or

2. Blindness in both eyes, having only light perception, plus the loss, or loss of use, of one leg; or

3. Loss, or loss of use, of one leg together with residuals of organic disease or injury which so affect the functions of balance or propulsion as to preclude locomotion without resort to a wheelchair.

4. Loss, or loss of use, of one lower extremity together with the loss, or loss of use, of one upper extremity, which so affect functions of balance or propulsion as to preclude, or render medically inadvisable, locomotion without specific aids.

Public Law 96-385, effective October 7, 1980, enlarged the class of veterans entitled to a housing grant under Chapter 21 of Title 38. It provides a grant of up to $5,000 for veterans (other than those eligible for assistance as described above) who are entitled to compensation for service-connected permanent and total disability due to:

1. blindness in both eyes with 5/200 visual acuity or less, or

2. the anatomical loss of loss of use of both hands.

The grant is for the purpose of acquiring adaptions needed for the eligible veteran's residence because of his or her disabilities.

The grant is conditioned upon residence in a home owned by the veteran or family member.

The lifetime maximum amount of VMLI allowed an eligible veteran may not exceed $40,000. The maximum amount is permanently reduced at the same time the principal of the mortgage loan is reduced below $40,000.

EXHIBIT C-3

The maximum amount of insurance available at one time may not exceed the lesser of the following amounts:

1. $40,000

2. The reduced remaining coverage available if the veteran has already used a portion of his or her mortgage insurance protection on an earlier loan. This reduced maximum represents $40,000, less any amount paid on a prior loan of $40,000 or less.

3. The total mortgage loan if it is less than $40,000.

The insurance is not available to veterans who have reached their 70th birthday.

The insurance is payable at the death of the veteran only to the holder of the mortgage loan. No insurance is payable if the mortgage is paid off prior to the veteran's death.

If title of the mortgage property is shared with anyone other than the veteran's spouse, the insurance coverage is only for the percentage of the title that is in the veteran's name.

A veteran is automatically insured upon receipt of a grant and the securing of a mortgage on the property.

Insurance contracted for under this law will terminate under any of the following conditions:

1. Veteran's 70th birthday;

2. Mortgage paid in full;

3. Termination of veteran's ownership of the property securing the loan;

4. Payment of premiums discontinued by the veteran;

5. Entire contract or agreement discontinued;

6. Request of the veteran;

7. Failure of the veteran to submit timely statement or other required information.

The premiums for this protection are based only on the mortality costs of insuring standard lives and should, therefore, be lower than any commercial insurance premiums for similar coverage.

The Government bears the administrative costs of the insurance and all costs for claims in excess of the premiums paid by the insured veteran.

EXHIBIT C-3

Premiums are determined by the insurance age of the veteran, the outstanding balance of the mortgage at the time of application and the remaining length of time the mortgage has to run.

Premiums are payable on a monthly basis. Veterans who desire the insurance will be advised of the correct premium when it is determined. If a veteran is receiving compensation or pension payments from the VA, he or she must have the premiums automatically deducted from his or her monthly benefit check. If a veteran is not receiving VA benefit payments, it is his or her responsibility to pay the monthly premiums directly to the insurance company. If there is a delay in initiating deductions, the amount needed to make up for earlier premiums will be included in the initial deduction.

The following statistical information is of interest:

Program Issue Dates	August 11, 1971 to present
Number of Members Covered	5,944
Average Face Amount per Member	$30,338
Total Face Amount in Force	$179,600,000
Average Annual Death Rate	34.40 per 1,000

DATA COMPILED AS OF DECEMBER 31, 1984

EXHIBIT C-3

SGLI (SERVICEMEN'S GROUP LIFE INSURANCE)

(ACTIVE DUTY; READY & PART-TIME RESERVISTS; 120-DAY POST-SEPARATEES)

STATEMENT OF OPERATIONS

(Accrual Basis)

INCOME	Policy Year 1984	Cumulative From Sep. 29, 1965
SERVICE PERSONNEL PREMIUMS	$152,910,939	$2,004,003,905
EXTRA HAZARD PAYMENTS	0	508,247,406
INTEREST EARNED	37,082,234	215,168,475
TOTAL	$189,993,173	$2,727,419,786
DISPOSITION OF INCOME		
DEATH CLAIMS	$147,665,572	$2,158,285,677
NET COST OF EXTRA MORTALITY ON CONVERSIONS	-2,432,273	28,915,593
EXPENSES OF ADMINISTRATION	1,601,286	23,454,185
TAXES AND FEES	2,888,484	42,083,193
DEPOSIT OR ADJUSTMENT TO POST-SEPARATION INSURANCE SUBFUND	39,330	2,459,231
TRANSFER TO RETIRED RESERVES	4,690,262	55,798,354
TRANSFER TO VGLI	14,588,038	122,272,321
CONTINGENCY RESERVE	20,952,474	294,151,232*
TOTAL	$189,993,173	$2,727,419,786

* 92,276,246 of the Contingency Reserve was deposited in the revolving fund established under title 38, United States Code, section 769(d)(1) in the Treasury of the United States, as a return of premiums. These funds have been invested by the Secretary of the Treasury in special interest-bearing obligations of the United States. As of September 30, 1984, the total amount in the revolving fund including interest was $109.8 million.

EXHIBIT D

Report Number: 4AB-B12-106

REVIEW OF VETERANS LIFE INSURANCE PROGRAM COSTS

SUMMARY

The Office of Inspector General (OIG) with the cooperation and assistance of Department of Veterans Benefits (DVB) reviewed selected aspects of the Veterans Administration (VA) insurance programs. Our audit included cost comparisons of VA expenses and those of similar commercial insurance programs and the economy and efficiency of selected program costs and services supplied. Other than the findings discussed below, nothing came to our attention that would indicate that VA insurance programs were not in compliance with applicable laws and regulations in untested areas.

We compared insurance industry policy costs with similar costs associated with VA administered insurance programs and found that available cost data for VA and private industry was restricted to some degree for detail comparison. However, our analysis did support the current in-house delivery method for the VA administered programs.

We determined that a reasonable doubt exists as to the appropriateness of VA paying State premium taxes applicable to the Servicemen's Group Life Insurance (SGLI) programs administered by the Prudential Insurance Company of Newark, N.J. Precedent for exempting a similar government insurance program from State premium taxes has been established under the Omnibus Reconciliation Act, P.L. 96-499, 10 July 1980. The act provided the Federal Employees Group Life Insurance program an exemption from all taxes, fees or other monetary payments relative to any premiums paid under the program.

Our audit showed that VA (SGLI) certificate holders are paying almost $3.4 million a year in State premium taxes for which they may not be obligated. Although these taxes are considered expenses by the Prudential Insurance Company as a cost of doing business in a particular State, the program should not be subject to such a tax as implied under P.L. 96-499. Since inception of the SGLI program, VA has paid approximately $42.5 million in premium taxes to support general revenue funds in each State.

In addition, we concluded that transfer of the Veterans Mortgage Life Insurance (VMLI) program from Bankers Life of Nebraska to the VA could save the Agency $84,000 annually. However, the current law does not provide the Administrator with the latitude necessary to oversee the program in the most efficient and economical manner.

VA's contract with Banker's Life of Nebraska results in payments of about $76,000 to process 20' death claims a year or about $370 cost per claim. The Philadelphia and St. Paul Veterans Administration Regional Office and Insurance Centers provide for premium collection, policy service, supervision and all other support for the VMLI program. The contractor's main function of processing death claims can be performed in-house with current staffing at either of the VAROICs with no additional VA program costs. The VA has paid out about $460,000 under this contract since its inception.

We recommend that the Chief Benefits Director propose legislation to: a) provide that no tax, fee or other monetary payment be imposed or collected by any State, the District of Columbia, the territories of Puerto Rico, Guam or the Virgin Islands on any premium paid for the insurance policy purchased under the SGLI program; b) permit the in-house operation of the VMLI program.

The Chief Benefits Director concurred with our findings and recommendations and provided adequate implementation plans to seek amendatory legislation.

Office of Inspector General
OFFICE OF INSPECTOR GENERAL

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TABLE OF CONTENTS

PART I - INTRODUCTION PAGE

- A. Purpose.. 1
- B. Background..................................... 1
- C. Scope.. 2

PART II - RESULTS OF AUDIT

- A. Findings and Recommendations.................... 3
  - 1. a. Exemption of Life Insurance Premiums From State Taxation Will Save $3.4 Million Annually Under the VA SGLI Policy........ 3
    - b. Recommendation.......................... 3
    - c. Discussion.............................. 4
      - 1. Premium Collection and Allocation of Taxes.............................. 4
      - 2. Comparison with FEGLI Program - Premium Tax Exemption....................... 5
  - 2. a. Efficient and Economical In-House Operation of the Veterans Mortgage Life Insurance Will Save Policyholders $84,000 Annually......................... 8
    - b. Recommendation.......................... 8
    - c. Discussion.............................. 8
      - 1. Program Duties and Responsibilities.. 8
      - 2. Annual Savings Realized Through Full VA Responsibility.................... 9
- B. Other Matters - Cost Comparison Results........... 11

EXHIBIT I - SELECTED YEAR END INSURANCE ITEMS............ 13
EXHIBIT II - INSURANCE UNIT COST PER POLICY.............. 14
ADDENDUM I - LEGISLATIVE HISTORY AND PROGRAM DESCRIPTION.. 15
ADDENDUM II - DEPARTMENT OF VETERANS BENEFITS RESPONSE..... 17

Part I
INTRODUCTION

A. Purpose

The purpose of this audit was to evaluate the economy and efficiency of selected aspects of Veteran's Administration insurance programs by analyzing and validating program costs and comparing insurance services provided with similar commercial insurance programs. The objectives of our review were to:

- o Determine the Fiscal Year 1983 cost of operations for the VA insurance program;
- o Assure that selected program costs applicable to the services supplied were reasonable; and
- o Provide a cost comparison with similar insurance programs within the private insurance industry.

B. Background

The Veterans Administration is responsible for administering five insurance programs, serving 4.3 million veterans with insurance coverage totaling about $30 billion. In addition, VA supervises three group insurance programs which are administered under contract with private insurance firms. Coverage for these three programs affects 3.7 million veterans, ready reservists, retired reservists and active duty personnel with insurance in force exceeding $123 billion.

The Philadelphia VA Regional Office and Insurance Center, (VAROIC) includes the Insurance Program Management Division, the Actuarial Staff and one of the two Insurance Operations Divisions. The Data Processing Center, located at the Philadelphia, VAROIC provides the primary data processing support for the insurance activity. A second insurance operations division is located in St. Paul, Minnesota. The Philadelphia, VAROIC accounts for about 64 percent of insurance activity while the remaining 36 percent is handled by the St. Paul, VAROIC.

The Insurance Program Management Division develops and recommends policy, plans and procedures impacting on the underwriting, account maintenance, death and disability claims and files activities of the insurance programs. It reviews and evaluates proposed legislation, develops VA procedures to implement new legislation, conducts studies and forecasts the insurance program budget and personnel requirements. The Actuarial Staff formulates and recommends changes to the insurance programs to enhance benefits; and performs special studies relative to actuarial matters, fund reserves and disability/mortality rates. The staff also monitors surplus levels, recommends investment, earning and dividend rates; assists in preparing budget estimates, and annually prepares the status report of each insurance program. The two operations divisions serve 4.3 million policies worldwide and the Philadelphia Insurance Program management division supervises and supports three privately administered programs: Servicemen's Group Life Insurance (SGLI), Veterans Group Life Insurance (VGLI) and Veterans Mortgage Life Insurance (VMLI). Both operations divisions provide policy service, examine disability insurance benefits, adjudicate death claims and determine medical eligibility relative to total disability.

C. Scope

The audit of the VA insurance programs was conducted in accordance with generally accepted governmental auditing standards and included tests of records and procedures, as we deemed necessary in the circumstances. A compliance and internal control review was not included as part of this audit. We interviewed personnel from the Offices of Data Management and Telecommunications and Budget and Finance, American Council of Life Insurance, Life Office Management Association, General Services Administration (GSA)-General Counsel, General Accounting Office, and the Army Judge Advocate Office.

Data verification was performed at VA Central Office in Washington, D.C.; Veterans Administration Regional Office/Insurance Center in Philadelphia, Pa; and the Prudential Insurance Company (Prudential) in Newark, NJ. In addition we visited the American Council of Life Insurance (ACLI) and William M. Mercer Inc. (an insurance consulting firm) and reviewed contracts applicable to Veterans Mortgage Life Insurance (VMLI) and Servicemens Group Life Insurance (SGLI).

PART II

RESULTS OF AUDIT

A. Findings and Recommendations

1. Exemption of Life Insurance Premiums from State Taxation Will Save $3.4 Million Annually Under the VA SGLI Policy

During the policy year ending June 30, 1983, VA paid about $3.4 million in "premium taxes" as required by New Jersey and other State laws for the Servicemen's Group Life Insurance (SGLI) contract maintained by the Prudential Insurance Company. Although this tax is considered by Prudential as a cost of doing business in a particular State, the company may not be required to pay such a tax as implied under the OMNIBUS Reconciliation Act, P.L. 96-499, July 10, 1980.

The above law, which is applicable to Federal Employees Group Life Insurance, (FEGLI), states that the Government, for all practical purposes assumes all risks and liabilities, establishes and collects premiums, establishes reserves and manages the fund. The contractor's function is primarily to settle and pay insurance claims for which it is reimbursed by the Government through premium collections.

Since legal precedent, via P.L. 96-499, has been established on the tax issue to exempt FEGLI group certificate holders from paying State premium taxes, then the VA's SGLI Insurance Program, identical to FEGLI in every respect should also qualify for premium tax exemption. Because VA and contractor roles and responsibilities have not been defined on this basis, VA has paid approximately $42.5 million in premium taxes since the inception of the SGLI contract in September 1965.

b. Recommendation No. 1

We recommend that the Chief Benefits Director:

Propose legislation, to provide that no tax, fee or other monetary payment be imposed or collected by any State, the District of Columbia, the territories of Puerto Rico, Guam or the Virgin Islands on any premium paid for an insurance policy purchased under the SGLI program.

c. Discussion

The Servicemen's Group Life Insurance (SGLI) program [1] was established by P.L. 89-214 and codified as Sections 765 through 776 of Title 38 on September 29, 1965. The law provided automatic insurance coverage to any member of the uniformed services on active duty against death in the amount of $10,000. Current law permits insurance coverage up to $35,000 and includes members of the National Guard and Reserves.

In accordance with Title 38, the Veterans Administration is authorized to purchase from one or more life insurance companies a policy or policies of group life insurance to provide the benefits specified in P.L. 89-214. The Administrator negotiated a group policy with the Prudential Insurance Company of America, located in Newark, NJ, effective September 1965, under which Prudential became the prime insurer.

The act specifies that the prime insurer (Prudential Insurance Company) reinsure portions of the total amount of insurance under such a policy or policies with such other life insurance companies as may elect to participate in such reinsurance. Premiums collected from members (certificate holders) of the uniform services are self supporting in that the Federal government only contributes that portion of premiums directly attributable to the extra hazards of military duty. Extra hazard charges are determined by the VA on an annual basis.

Insurance companies transacting business in the 50 States, District of Columbia, and the territories of Puerto Rico, Guam and the Virgin Islands are required to pay a tax on the premiums collected during a calendar year. The premium tax rate varies among the States and territories with a range of one to four percent of the amount collected. Prudential, incorporated and operating in the State of New Jersey, pays this tax as required by the State's law on Taxation of Insurance Companies, Section 54:18A-1.

1. Premium Collection and Allocation of Taxes

Prudential is reimbursed for all expenses associated with the administration and operation of the SGLI program including State premium taxes. Each active duty serviceman and reservist currently pays about $2.80 a month for a maximum of $35,000 insurance to cover policy cost, and amounts allocated for administrative expenses, premium taxes and various licenses and fees. The respective military service organizations collect and forward these monies to the VA's Central Office agent cashier where they are deposited in a SGLI revolving fund with the U.S. Treasury. Periodically (about three times a month) VA insurance officials direct the agent cashier to transfer monies collected to Prudential which has the responsibility for investments, claims processing, and day to day program operation.

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[1] The Servicemen's Group Life Insurance Program includes not only active duty personnel in the uniformed services but members of the Ready Reserves and Retired Reserves as well.

Prudential also has the responsibility of paying the collected premium taxes to each State. The firm submits a monthly check to each State based on the State's premium tax rate times the premium amounts collected from the VA as policyholder for insured residing in the particular State. In the policy year ending June 30, 1983, Prudential paid out $3,355,143 in premium taxes for the SGLI program and about $42.5 million since the inception of the contract in September 1965.

The establishment of premium rates charged by Prudential are determined by the Administrator with Prudential's agreement. Readjustment to premium rates are made if found necessary, by past year experiences. Premium rates have steadily decreased over the life of policy from $.20 per thousand to the current $.08 per thousand dollars of life coverage. The maximum amount of coverage in 1965 was $10,000 and the current maximum coverage is $35,000, yet, excess funds were always available to the program.

The amount maintained in the Contingency Reserve at Prudential is an amount estimated by the VA to make satisfactory provisions for adverse fluctuations in future charges under the Group Policy. Excesses to the contingency reserve estimate may be utilized to reduce premiums or deposited in the Treasury revolving fund. It appears that service personnel premiums were significantly more than enough to pay for all program costs.

As mandated in P.L. 89-214, the VA, in conjunction with the Treasury of the United States, has established a revolving fund for depositing member premiums and income derived from dividends and rate adjustments. Costs to administer the insurance program, all current premium payments and extra hazard costs traceable to the performance of active duty in the uniformed services are paid from the revolving fund. The revolving fund is controlled by the VA and serves as added support to the contingency reserve fund.

2. Comparison with FEGLI Program - Premium Tax Exemption

Both Prudential and VA officials have stated that this tax was always paid and never challenged because New Jersey State law levies the premium tax on all private insurance companies collecting such premiums. Therefore, VA's obligation to pay these taxes by reimbursing Prudential, was included in the wording of the contract.

Precedence however has been established for a Federal agency to be exempt from paying State premium taxes. The Office of Personnel Management (OPM) was expressly granted exemption from these taxes on July 10, 1980 through the passage of the OMNIBUS Reconciliation Act (P.L. 96-499) relative to the Federal Employees Group Life Insurance (FEGLI). The function of the contract holder, Metropolitan Life Insurance Company, is primarily to settle and pay insurance claims which are subsequently reimbursed by the government. Pursuant to authority contained in Title 38, the Prudential Insurance Company, as prime insurer, functions in the same manner as Metropolitan.

The reasons and criteria related to the FEGLI program administered by OPM are reinforced in various General Accounting Office (GAO) reports and memoranda. The criteria identified are not only applicable to OPM but to the VA as well. The GAO issued two reports which support our finding and recommendation: "Survey of the Application Of The Governments Policy on Self-Insurance", B-168106, June 14, 1972 and "Changes to the Federal Employees Group Life Insurance Program Are Needed", B-125004, May 6, 1977. Both reports suggest legislation to exempt FEGLI from paying premium taxes. On June 10, 1980, P.L. 96-499, Omnibus Reconciliation Act was passed, exempting the FEGLI program from State premium taxes.

Also, both the SGLI and FEGLI contracts with Prudential and Metropolitan respectively provide for the establishment of an Office of Insurance. In accordance with the terms and conditions of the contracts, both offices maintain the responsibility to: a) settle and pay claims; b) maintain a contingency reserve; c) prepare annual statements for the policy holder; d) maintain a conversion pool of carriers interested in participating in the reinsurance program.

Additionally, we found that premium taxes in North Carolina are based on gross premiums from business conducted and insurance premiums received for contracts covering persons, property and risks located within the State except"... for premiums from policies written in Federal areas for persons in military service who pay premiums by assignment of service pay." 2/ At the time of our audit, Prudential was not able to provide us with information on how premium taxes for North Carolina are handled even though the premium tax law apparently excludes military service personnel from paying the tax.

2/ Extracted from the North Carolina premium tax manual

Conclusion

We believe that the FEGLI and SGLI programs are similar in almost every respect and that the SGLI program should be granted immunity from State premium taxes. Since precedence has been established, there should be no impediment to seeking a legislative change for this exemption.

Chief Benefits Director's Response

The Chief Benefits Director has concurred with our recommendation and will request the Office of General Counsel (OGC) to propose legislation to seek the premium tax exemption.

Office of Inspector General Comment

We consider the Chief Benefits Director's implementation plan to be responsive to our recommendation.

2. Efficient and Economical In-House Operation of the Veterans Mortgage Life Insurance Program Will Save Policyholders $84,000 Annually.

During the policy year ending September 30, 1983 VA paid $76,601 in direct and indirect expenses, premium taxes, Federal income taxes and management fees to process 207 death claims under the Veterans Mortgage Life Insurance (VMLI) contract. In addition, the VA lost approximately $8,000 in interest, due to the investment calculation method used by the Bankers Life Insurance Company. VA's responsibility for this program includes policy service, adjudication, premium collection and determination of medical eligibility, while the Bankers Life Insurance Company responsibility only extends to collecting one-percent of the premiums and processing death claims. Between 1971 and the close of calendar year 1982, the VA has paid approximately $460,000 for administrative and Federal/State tax expenses to a private insurance company to process death claims that can be handled by VA in-house without any additional costs.

b. Recommendation No. 2

We recommend that the Chief Benefits Director:

Propose legislative action to permit the in-house operation of the VMLI program.

c. Discussion

The Philadelphia, and St. Paul VAROICs provide supervision and support for the Veterans Mortgage Life Insurance program. The St. Paul operations division is responsible for premium collection, policy service, adjudication, and medical eligibility relative to total disability. We estimate that an $84,000 cost saving in operating expenses, taxes, and interest could be realized annually, if the VA were to assume total operation of the VMLI program.

1. Program Duties and Responsibilities

The Veterans Mortgage Life Insurance (VMLI) program was established in August, 1971 to provide insurance protection to severely disabled veterans who are authorized specially adapted home grants. The mortgage protection insurance is provided through a group policy administered by the Bankers Life Insurance Company of Lincoln, Nebraska. The St. Paul VAROIC processes applications for coverage with a maximum $40,000 in mortgage insurance protection available to qualified veterans. The veteran is protected until the mortgage loan is paid in full, the domicile is sold, the veteran reaches age 70 or until the veteran dies.

Premiums are deducted from the veteran's compensation payments, forwarded to Bankers Life and deposited in a contingency reserve fund maintained by the insurance company. Whenever the fund falls below a $200,000 balance, (i.e. from paying death claims) the VA contributes from appropriations an amount sufficient to maintain a minimum balance of at least $200,000.

At the close of Fiscal Year 1983, the VMLI had 6065 active accounts with 99 percent of the premiums collected by VA through deductions from the veteran's compensation payments. The remaining 1 percent of premiums were mailed directly to Bankers Life. During the same period, Banker's Life processed 207 death claims toalling $5.2 million and charged adminstration and operating expenses to the program which included: premium taxes, $26,895; administration, $19,853; Federal income tax, $9,682 and a management fee of $20,171.

2. Annual Savings Realized Through Full VA Responsibility

Program Management Division officials at, Philadelphia, VAROIC stated that processing 207 death claims per year would have little effect on insurance operations. The insurance center processed over 70,000 death claims during Fiscal Year 1983 and the increased workload would not justify any additional full-time employees or other support costs. If VA had full in-house responsibility for the VMLI program, annual savings of $76,000 plus $8,000 in additional interest savings would be realized.

The additional interest saving is a result of the difference of interest earned from Bankers Life investments and return on U.S. Treasury deposits. Our review showed that the actual rate of return, even though comparable with rates generally applied to other similar group life insurance funds, was almost 4 percent lower per month than the rate of return received for deposits with the U.S. Treasury.

Conclusions

Congressional intent to withdraw the government from the insurance business was demonstrated with the enactment of the FEGLI, SGLI and VMLI programs. This intention is dramatized with the establishment of the FEGLI and SGLI program offices to administer the contract specifications. The contractors, Metropolitan and Prudential respectively, perform major administrative and management duties necessary for program accomplishment. However, the nature of the VMLI program precludes reasonable economies of scale available in the SGLI program and results in very high unit costs for the duties performed by Bankers Life. The only major function executed by Banker Life is the payment of policy benefits to designated beneficiaries. In essence, the VA is in the insurance business primarily, because it accomplishes for VMLI all the major functions, i.e., premium collection, policy service, adjudication etc., usually expected of insurance companies. The current expense of paying death claims under this program could be practically eliminated if the VA were to assume complete responsibility for the program.

In accordance with contract provisions, the VA may discontinue the policy at any time by giving the Bankers Life Insurance Company written notice in advance of the desired discontinuance date. With the savings identified in our review and the major functions currently performed by the VA, we believe DVB and insurance officials should seek legislative change to bring the total VMLI program operations within the VA or seek other more efficient and economical options to fulfill program objectives.

Chief Benefits Director's Response

The Chief Benefits Director has concurred with our recommendation and will propose legislative action through OGC to bring the VMLI Program into VA's Insurance operations.

Office of Inspector General Comment

We consider the Director's implementation plan to be responsive to our recommendation.

B. Other Matters - Cost Comparison Results

Our review compared industry unit costs per policy with similar costs associated with the VA administered insurance programs. We found that the VA cost per policy for Fiscal Year 1983 was $5.98. In an effort to make industry-wide comparisons we contacted the American Council of Life Insurance (ACLI) and found that the estimated cost per policy during Calendar Year 1982 for group term insurance was $6.53, while policy cost for ordinary life equated to $50.48 per policy. These estimates are based on annual statements mandated and filed with each State insurance commission and compiled by the ACLI. Exhibit II, page 14, of this report details how we arrived at the costs per policy for the VA and industry-wide estimates presented by the ACLI.

The above estimates are based on industry-wide data for all insurance companies. Only a few of the largest insurance firms would compare in size to VA's insurance programs. For that reason, we visited the Prudential Insurance Company, the nation's largest, which maintains VA's SGLI program under contract, for additional comparable cost data tests. Prudential estimated $7.00 per policy for administration (direct) expenses and $3.00 per group term policy for shared (support) expenses. Prudential officials explained that administration expenses include; maintaining a group sales force, product marketing force and personnel relative to premium collections, benefit disbursements, policy maintenance and certain support services. Shared expenses are those associated with the continuing operation of the company, i.e. licenses and fees, insurance, taxes, and executive direction.

Opinions advanced by commercial contractors indicated that the cost accounting attributes associated with VA insurance programs are not the same as in industry which they feel further limits the potential for detailed cost comparisons. Prudential officials informed us that the insurance industry uses a "full cost concept" of accounting, i.e. if a cost can be identified and measured to a specific function, that direct cost is then chargable to that function. In addition, a portion of shared costs such as advertising, architecture and engineering, auditing, utilization of company aircraft etc., are also charged to that function. The distribution of shared costs may be assigned by premium collections, number of policyholders or any other reasonable method of allocation. Our review indicates that VA and commercial cost accounting is similar; however, differences do occur in classification of costs between direct (administration) and support (shared) and in the scope and basis for computing support costs. The VAs cost per policy includes direct costs to the insurance activity, e.g. salaries, rents, utilities, travel, printing, employee benefits etc. Designated DVB services also attribute a certain historically predetermined percentage of their total costs to support insurance. This percentage is multiplied by their total program costs to derive the insurance program's allocated costs. (See exhibit II, page 14, note 1.)

The two cost components previously discussed for Prudential (policy administration cost - $7.00 and shared cost - $3.00) do not include any additional cost factors which may be related to "significant and restrictive caveats" which they assert are inherent in the VA insurance programs. Industry officials pointed out that the feasibility of private industry maintaining all VA insurance programs must consider the desirability of a commercial operation inheriting policies which are: decreasing in numbers and premium receipts with no new issues, except high risk Service Disabled Veterans Insurance (SDVI) for veterans with service-connected disabilities (See Legislative History and Program Description, page 15.); increasing liability due to increasing age of the insured; and legislative coverage such as providing policy loans at very reasonable interest rates. Industry representatives also stated that it would be difficult for any firm to consider these restrictive caveats particular to the VA program. (See Selected 1982 Year End Insurance Items, Exhibit I, p. 13.)

Conclusion

Although the usefulness of available cost data for VA and private industry operations was restricted for detail comparison because of different methods of classification and computation of data, the resultant unit costs per policy reported by VA and industry are useful for overall comparison purposes. Our review indicates all significant VA costs are included in the $5.975 cost per policy and we accept the industry costs of $6.533 per group life policy and $50.486 per ordinary life policy. We believe they support the current in-house delivery method for the five VA administered programs.

EXHIBIT 1

SELECTED 1982 YEAR END INSURANCE ITEMS

	Government Administered Programs					Government Supervised Programs		
	USGLI	NSLI	VSLI	SDVI	VRI	SGLI	VMLI	VGLI
No. of Term Policies in force	417	1,050,287	262,772	87,721	-0-	3,302,737	6,065	382,361
No. of Permanent Plan Policies in force	81,827	2,301,038	239,267	103,436	159,441	-0-	-0-	-0-
Enrollment Period	1919-1951	1940-1951	1951-1956	1951-Open	1965-1966	1965-Open	Open	1974-Open
Average Amount Per Policy	$ 3,992	$ 6,430	$ 8,681	$ 9,065	$ 6,812	$ 34,818	$28,329	$21,446
Average Attained Age in 1982	77.9 yrs	60.0 yrs	50.4 yrs	41.8 yrs	59.8 yrs			
Average Annual Death Rate per 1000	89.2	15.5	4.9	11.2	15.4			
No. of Policies Issued in 1982	-0-	-0-	-0-	6,992	-0-			
Amount of Insurance in Force (Billions)	$ .3	$ 21.5	$ 4.3	$ 1.7	$ 1.1	$ 114.9	$ .2	$ 8.2

EXHIBIT II

INSURANCE UNIT COST PER POLICY

		Industry (2)	
VA Administrative Costs (1)		Group Life	Ordinary Life
Insurance Operations	$ 8,556,269		
Insurance Program Management and Actuary	793,734		
Executive Direction (includes Central Office Resources)	218,369		
Veterans Assistance	1,997,091		
Administrative	4,690,150		
Finance	2,384,262		
Personnel	179,741		
Data Management and Telecommunications	6,642,408		
Total per VA General Insurance Expenses	25,462,024		
Error (executive direction) per Audit	96,782		
Grand Total General Insurance Expenses (A)	$25,558,806	$812,000,000 (3)	$7,371,000,000 (3)
Policies in Force (5)			
United States Government Life Insurance	82,244		
National Service Life Insurance	3,351,325		
Veterans Special Life Insurance	502,039		
Service-Disabled Veterans Life Insurance	191,157		
Veterans Reopened Life Insurance	159,441		
Policies in Force Calendar Year 1982	4,286,206		
Policies in Force (B)	4,277,190 (1)	124,279,000 (4)	146,000,000 (4)
Cost Per Policy (A ÷ B)	$ 5.975	$ 6.533	$ 50.486

Notes

1 - These costs and policies in force are associated with individual term and ordinary life policies administered by VAROIC Philadelphia and St. Paul, as submitted in the annual cost per policy breakdown for Fiscal Year 1983. The percentages of support services attributable to insurance operations were last evaluated in 1981 in response to a legislative request. We were informed by DVB Budget Staff that these percentages will be reviewed in the near future for utilization with Fiscal Year 1985 insurance operations.

2 - These figures represent data collected by the ACLI for Calendar Year 1982.

3 - General insurance expenses as compiled by the ACLI and reported on the ACLI Annual Statement for the year ending December 31, 1982. This represents total general insurance expenses for the entire insurance industry. Incremental cost data is not available.

4 - Number of certificates in force in the United States for Calendar Year 1982, as published by the ACLI in the 1983 Life Insurance Fact Book.

5 - Source - Government Life Insurance Programs for Veterans and Members of the Service, Annual Report, Calendar Year 1982

ADDENDUM I

LEGISLATIVE HISTORY AND PROGRAM DESCRIPTION 1/

Public Law 69-90 established the United States Government Life Insurance (USGLI) program to stimulate self-help and self-protection for members of the Armed Forces. The program was primarily enacted to handle insurance coverted from War Risk Term Insurance of World War I. In addition to the death benefit, USGLI policies provide a total disability benefit. The program is self-supporting except for administrative expenses and claims traceable to the extra occupational hazard of service in the Armed Forces. The policy was closed to new issues in 1951.

In 1940 P.L. 76-801 created the National Service Life Insurance Program (NSLI) to handle the insurance needs of World War II. The policy served to protect the financial interests of those policyholders covered under USGLI. In April 1951 the program was closed to new issues. All NSLI policies provide a death benefit and a disability premium waiver benefit in addition to an optional total disability income benefit. The program is self-supporting except for administrative expenses and claims attributable to extra occupational hazard of service in the Armed Forces.

Public Law 82-23 created the Veterans Special Life Insurance (VSLI) and the Service Disabled Veterans Insurance (SDVI) programs. VSLI was available, without medical examination to Korean veterans separated from service on or after April 25, 1951 and before January 1, 1957. It provided indefinitely renewable 5-year term and later provided for an exchange to a lower priced term not renewable after age 50, and for conversion to permanent plans. The program was originally set up on a nonparticipating basis, however, in 1974 Congress changed the plan to participating and the first regular dividends were paid in 1975.

Service-Disabled Veterans Insurance, (SDVI) is available to veterans with service-connected disabilities. The veteran must apply within one year from the time the VA notifies him of his service-connected disability. Total disabilities due to a service connected condition will not prevent the veteran from receiving a premium waiver. Upon application, automatic

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1/ Source - Actuarial Analysis of 1982 Operations and Government Life Insurance Programs for Veterans and Members of the Services, Annual Report Calendar Year 1982 coverage for $10,000 is granted to a person who is statutorily totally disabled. The program insures medically substandard lives at standard premium rates. This program is not self-supporting and periodically funds are appropriated by Congress.

In 1964, Public Law 89-40 expanded the NSLI program and provided limited reopening under the Veterans Reopened Insurance (VRI). Basically the VRI was opened for one year and provided insurance protection to disabled World War II and Korean veterans.

Public Law 92-95 legislated in 1971, provided group mortgage life insurance to veterans disabled in service who have received VA grants for specially adapted housing. Coverage ceases at age 70 and at present is limited to $40,000. Expenses and additional cost of insuring these medically impaired lives are borne by the Government. The program is supervised by the VAROIC, Philadelphia and administered by Bankers Life Insurance Company in Lincoln, Nebraska.

In 1965, Public Law 89-214 established the Servicemen's Group Life Insurance (SGLI), program. This group term insurance covers personnel serving on active duty, in ready reserves, retired reservists, and service academy members in multiples of $5,000 to $35,000. Premiums are collected by military service organizations, forwarded to the VA and transferred to the commercial insurer. The policy is administered by the Prudential Insurance Company in Newark, New Jersey and supervised by the VAROIC, Philadelphia.

Public Law 93-289 in 1974 established Veterans Group Life Insurance (VGLI) to provide low-cost protection to veterans during post separation from the military service. The program provides coverage on nonrenewable 5-year term insurance in multiples of $5,000 up to a maximum of $35,000. Application for coverage, without a health examination must be within 120 days of separation or within one year with proof of health and only for an amount equal to or less than the amount at termination of SGLI.

ADDENDUM II

Veterans Administration

Memorandum

Date: SEP 24 1984

To: Assistant Inspector General for Auditing (52)

From: Chief Benefits Director (20)

Subj: Report of Audit, Economy and Efficiency Review
of Veterans Life Insurance Program Costs
(4AB-119) (your memo dated August 28, 1984)

1. We have reviewed your revised audit report. Additionally, members of the insurance staff met with members of your staff and discussed the report and its recommendations.

2. We concur with the two recommendations, that we propose legislation to:

(a) Permit the in-house operation of the Veterans Mortgage Life Insurance program, and

(b) Provide that no tax, fee or other monetary payment be imposed or collected by any state, the District of Columbia, the territories of Puerto Rico, Guam or the Virgin Islands on any premium paid under the Servicemen's Group Life Insurance program.

3. During the discussions between our staffs, we made several suggestions regarding technical aspects of the report, which we understand will be incorporated into the final version.

4. Nevertheless, we concur with the recommendations and intend to submit legislative proposals to effectuate them as part of our next Legislative Program package.

5. Thank you for the opportunity to review the audit report.

John W. Hagan
DOROTHY L. STARBUCK

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MAY 1983
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THE
RETIRED
OFFICERS
ASSOCIATION
201 N. Washington St., Alexandria, VA 22314-2529 • (703) 549-2311

Statement of

THE RETIRED OFFICERS ASSOCIATION

before the

COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON
COMPENSATION, PENSION AND INSURANCE

Presented by

COMMANDER JOHN F. WANAMAKER
United States Navy, Retired

Deputy Director, Legislative Affairs

September 10, 1985

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM COMMANDER JOHN WANAMAKER, DEPUTY DIRECTOR OF LEGISLATIVE AFFAIRS OF THE RETIRED OFFICERS ASSOCIATION, (TROA) WHICH HAS ITS NATIONAL HEADQUARTERS AT 201 NORTH WASHINGTON STREET, ALEXANDRIA, VIRGINIA. OUR ASSOCIATION HAS A MEMBERSHIP OF OVER 340,000 RETIRED, FORMER AND ACTIVE DUTY OFFICERS OF THE SEVEN UNIFORMED SERVICES. INCLUDED IN OUR MEMBERSHIP ARE 42,300 WIDOWS OF FORMER MEMBERS.

WE WELCOME THIS OPPORTUNITY TO APPEAR BEFORE THE COMMITTEE TO REVIEW THE VARIOUS INSURANCE PROGRAMS ADMINISTERED BY THE VETERAN'S ADMINISTRATION. THE OBJECTIVE OF THIS REVIEW SHOULD BE TO DETERMINE 1) IF THE CURRENT INSURANCE PROGRAMS MEET THE NEEDS OF THOSE WHO SERVE IN OUR MILITARY FORCES AND 2) ARE THE PROGRAMS ADMINISTERED IN THE MOST EFFICIENT MANNER.

DETERMINATION OF INSURANCE REQUIREMENT

A SERVICEMEMBER ENTERING SERVICE AT 18 YEARS OF AGE, USUALLY WITHOUT DEPENDENTS, HAS A CONSIDERABLY DIFFERENT REQUIREMENT FOR INSURANCE COVERAGE THAN A SERVICEMEMBER WITH 15-20 YEARS OF SERVICE WITH FAMILY RESPONSIBILITIES, WITH CHILDREN APPROACHING COLLEGE AGE, PROBABLY A LARGE OUTSTANDING MORTGAGE ON A HOUSE WHICH IS MOST LIKELY LOCATED SOMEPLACE OTHER THAN THE LOCATION WHERE HIS SURVIVORS WILL SETTLE SHOULD HE DIE IN SERVICE. ADDING TO THIS, IF ONE CONSIDERS THE COMPENSATION DIFFERENCES THAT EXIST BETWEEN DIFFERENT GRADES OF SERVICEMEMBERS RANGING FROM $9,000 TO $60,000 PER YEAR, THEN IT BECOMES READILY APPARENT THAT A MAXIMUM LEVEL OF INSURANCE IN THE $50,000 RANGE, AS NOW PROPOSED, FOR SERVICEMEMBERS GROUP LIFE INSURANCE (SGLI), MAY NOT BE APPROPRIATE IN EITHER EXTREME CASE. MY POINT, MR. CHAIRMAN, IS THE CURRENT PROGRAM HAS RELATIVELY LITTLE

FLEXIBILITY TO MEET THE BROAD RANGE OF DIFFERENT INSURANCE REQUIREMENTS. WE RECOMMEND THAT THE COMMITTEE CONSIDER A FLEXIBLE INSURANCE PROGRAM SIMILAR TO THAT WHICH THE GOVERNMENT MAKES AVAILABLE FOR ITS CIVILIAN EMPLOYEES. THAT PROGRAM PROVIDES A RANGE OF COVERAGE OPTIONS FROM $74,000 FOR THE LOWEST (GS-1) EMPLOYEE TO THE MAXIMUM OF $456,000 COVERAGE FOR THE MORE SENIOR EMPLOYEES. IT IS FURTHER RECOMMENDED THAT THE NEW PROGRAM SHOULD PROVIDE CONTINUATION OF COVERAGE AFTER RETIREMENT. THE CIVIL SERVICE PLAN PROVIDES SUCH POST-RETIREMENT COVERAGE UNTIL AGE 65 AT WHICH TIME THREE OPTIONS ARE MADE AVAILABLE. THESE POST-RETIREMENT OPTIONS ARE ESPECIALLY IMPORTANT FOR THOSE CAREER SERVICEMEMBERS WHO NOW FIND THEMSELVES SEEKING COMMERCIAL INSURANCE LATE IN LIFE. AS PREMIUMS ARE BASED ON ENTRY AGE, IT BECOMES VERY EXPENSIVE AND MANY CANNOT AFFORD THE COVERAGE.

THIS CONGRESS HAS DIRECTED THE DEPARTMENT OF DEFENSE TO SUBMIT TO THE CONGRESS A PLAN TO REVISE THE MILITARY RETIREMENT SYSTEM WHICH WOULD REDUCE THOSE BENEFITS BY APPROXIMATELY 16 PERCENT. WE STRONGLY BELIEVE THAT SUCH A DRASTIC REDUCTION IN COMPENSATION WILL RESULT IN FUTURE PROBLEMS IN RECRUITMENT AND RETENTION. AN ENHANCED INSURANCE PROGRAM FOR FUTURE SERVICEMEMBERS WILL HELP ALLEVIATE SOME OF THE UNCERTAINTIES OF PROVIDING ADEQUATE SURVIVORS PROTECTION SHOULD ONE ELECT A MILITARY CAREER. KNOWING THAT BOTH HOUSES OF THE CONGRESS HAVE PASSED MEASURES TO INCREASE THE MAXIMUM COVERAGE OF THE SGLI INSURANCE TO $50,000 THIS MUST BE CONSIDERED AN INTERIM MEASURE UNTIL A MORE VIABLE PROGRAM IS ESTABLISHED.

ASSUMING THAT THE NEW MAXIMUM LEVEL OF $50,000 COVERAGE IS EVENTUALLY PASSED, THE VETERANS' ADMINISTRATION WILL IN ALL

PROBABILITY BE REQUIRED TO RENEGOTIATE THE CONTRACT WITH PRUDENTIAL INSURANCE CO. OF AMERICA WHICH IS THE CURRENT ADMINISTRATOR. IT IS RECOMMENDED THAT THIS CONTRACT NEGOTIATION BE ENTERED INTO ON A COMPETITIVE BID BASIS AND SUBJECTED TO RENEGOTIATION EVERY FIVE YEARS. FROM RECENT ADVERTISEMENTS WHICH HAVE APPEARED IN THE NAVY TIMES MAGAZINE, IT WOULD APPEAR THAT COMMERCIAL INSURANCE IS BEING OFFERED IN LARGER AMOUNTS ($60,000) AND AT LOWER NET COSTS AFTER REFUNDS (AS LITTLE AS $3.50 PER MONTH.)

IN REVIEWING PAST LEGISLATIVE HISTORY, ONE BECOMES AWARE THAT THE CONGRESS HAS EXPRESSED ITS INTENT OVER THE YEARS TO GET OUT OF THE INSURANCE BUSINESS. THESE GOOD INTENTIONS NOTWITHSTANDING, THIS COMMITTEE MUST REALIZE THAT THE POPULATION COVERED BY G.I. INSURANCE, BY ITS VERY NATURE, ENTAILS ADDED WARTIME AND HAZARDOUS DUTY RISKS.

EVEN TAKING THESE ADDED RISKS INTO CONSIDERATION, IT IS RECOMMENDED THAT EACH TIME THE CONTRACT IS RENEGOTIATED IT SHOULD BE WEIGHED AGAINST THE POTENTIAL SAVINGS THAT MIGHT REDOUND TO BOTH THE SERVICEMEMBER AND THE GOVERNMENT BY BRINGING THE PROGRAM BACK IN HOUSE. IN VIEW OF THE OVERSIGHT RESPONSIBILITY EXERCISED BY THIS COMMITTEE, IT WOULD BE APPROPRIATE FOR THE INSURANCE ADMINISTRATOR TO PROVIDE THE COMMITTEE A 10 YEAR HISTORY OF THE PROGRAM FROM WHICH IT COULD BE DETERMINED IF THE PROGRAM IS IN FACT PROVIDING THE COVERAGE DESIRED IN THE MOST COST EFFICIENT MANNER TO BOTH THE SERVICEMEMBER AND TAXPAYERS. SURELY AN INSURANCE PROGRAM THAT REQUIRES NO POLICIES BE ISSUED, NO COMMISSION ON SALES AND WITH PREMIUMS COLLECTED AND PAID BY THE GOVERNMENT, THE PLAN SHOULD BE CONSIDERABLY CHEAPER THAN SIMILAR CIVILIAN PLANS TO ADMINISTER.

THE CURRENT SGLI PROGRAM TERMINATES 120 DAYS AFTER RELEASE FROM ACTIVE DUTY. FOR THE CAREER FORCE, A MEMBER WHO HAS SERVED 20 OR MORE YEARS IS FORCED TO SEEK A REPLACEMENT FOR THE LOST INSURANCE COVERAGE AT A RELATIVELY OLDER AGE WITH THE RESULTANT HIGHER COSTS. IT WOULD SEEM APPROPRIATE FOR THE SOLDIERS AND SAILORS OF THE CAREER FORCE TO BE ABLE TO CONTINUE TO BE COVERED BY THE SGLI INSURANCE AS ARE RESERVISTS WHO MAY RETAIN COVERAGE UNTIL AGE 60. RETIRED MEMBERS HAVE AN OBLIGATION TO CONTINUE SERVICE IN RETIREMENT BEING SUBJECTED TO RECALL AT THE DISCRETION OF THE SERVICE SECRETARIES. UNDER THESE CIRCUMSTANCES, CONTINUED COVERAGE WOULD BE APPROPRIATE. AS I INDICATED EARLIER, CIVILIAN EMPLOYEES OF THE GOVERNMENT HAVE COVERAGE UNDER THAT PROGRAM WHICH THEY CAN CARRY OVER INTO RETIREMENT. IT IS RECOMMENDED THAT SIMILAR COVERAGE FOR MILITARY RETIREES BE PROVIDED AT LEAST UNTIL AGE 60.

VETERANS GROUP LIFE INSURANCE

THIS PROGRAM WAS DEVELOPED PRIMARILY TO ENABLE SERVICEMEMBERS TO MAKE AN ORDERLY TRANSITION TO CIVILIAN LIFE, AND PROVIDES AN INTERIM 5 YEAR COVERAGE DURING WHICH TO PURCHASE REPLACEMENT INSURANCE. CURRENT LAW REQUIRES THAT PREMIUMS FOR VGLI COVERAGE BE PAID DIRECTLY TO THE SGLI OFFICE LOCATED IN NEW JERSEY. I BELIEVE THAT SHOULD A FORMER SERVICEMEMBER BE RETIRED FOR WHATEVER REASON OR IN RECEIPT OF VA DISABILITY COMPENSATION, THEN THE INDIVIDUAL SHOULD BE AUTHORIZED TO ALLOT THE PREMIUMS DIRECTLY FROM SUCH COMPENSATION. FINALLY, SHOULD THE MEMBER DESIRE TO EXERCISE HIS RIGHT TO THE GUARANTEED INSURABILITY FEATURE OF THAT PROGRAM, HE SHOULD BE PROVIDED WITH AN ESTABLISHED STANDARD POLICY WITH FIXED PREMIUMS NEGOTIATED WITH THE VARIOUS COMPANIES WHICH WOULD ELIMINATE THE PROBLEMS OF EVALUATING THE MANY VARIOUS PLANS OFFERED BY HUNDREDS OF

DIFFERENT COMPANIES.

NATIONAL SERVICE LIFE INSURANCE

THE NSLI TRUST FUND WAS ESTABLISHED IN 1940 TO SERVE THE INSURANCE NEEDS OF WORLD WAR II SERVICE PERSONNEL AND VETERANS. ISSUANCE OF NEW POLICIES ENDED IN 1951. THE FOLLOWING SCHEDULE, PUBLISHED BY THE VETERANS' ADMINISTRATION PROVIDES A CAPSULE OVERVIEW OF THE ACTIVITY OF THIS PROGRAM PROPOSED FOR FY 1986:

NO OF POLICIES IN FORCE	2,981,587	
AMT OF INSURANCE IN FORCE	$21,515,132,000	
DEATH CLAIMS	$513,000,000	
DIVIDENDS	$650,000,000	
OTHER OBLIGATIONS	$300,980,000	
TOTAL OBLIGATIONS		$1,464,000,000
PREMIUMS	$413,450,000	
INTEREST EARNED	882,030,000	
PAYMENT FROM VI+I	1,720,000	
OFFSETTING COLLECTIONS	403,300,000	
TOTAL REVENUE		$1,700,500,000
UNOBLIGATED BALANCE (END OF YEAR)	$9,030,794,000	

FROM THIS ACTIVITY ONE CAN DETERMINE THAT THE INTEREST RECEIVED FROM INVESTMENTS EXCEED THE PAYMENTS OF DEATH CLAIMS BY $370,010,000. AT THIS POINT IN TIME, I BELIEVE THAT THE ADMINISTRATOR COULD DECLARE ALL POLICIES PAID UP AND THAT THERE WOULD BE SUFFICIENT RESIDUAL FUNDS IN THE TRUST TO AMORTIZE ALL FUTURE LIABILITIES. THE FUND WOULD CONTINUE TO GROW. TERMINATION OF PREMIUM PAYMENTS ALONE WOULD RESULT IN SUBSTANTIAL SAVINGS. THIS COMMITTEE SHOULD REQUEST A

REPORT FROM THE BOARD OF ACTUARIES ON THE FEASABILITY OF SUCH A PROPOSAL. AS AN ALTERNATIVE, THE BOARD OF ACTUARIES COULD DETERMINE A PROGRESSIVE METHOD TO STOP PAYMENT OF PREMIUMS FOR EXAMPLE AT AGE 65 AND THEN EACH YEAR THEREAFTER MOVE THE AGE LOWER IN 5 YEAR INCREMENTS. IN SUMMARY, WE FEEL THIS APPROACH WOULD EFFECT SIGNIFICANT SAVINGS TO BOTH THE VETERAN AND THE GOVERNMENT. WITH THE INSURANCE IN FORCE DECREASING BY OVER $500,000,000 EACH YEAR, AND THE FUND INCREASING BY SURPLUS INTEREST BY OVER $300,000,000 EACH YEAR, THE FUND WOULD EQUAL THE REMAINING INSURANCE IN FORCE IN LESS THAN 15 YEARS. A SIMILAR CURTAILMENT OF PREMIUMS WAS MADE IN THE USGLI PROGRAM AND I BELIEVE IT PROPER THAT THE COMMITTEE LOOK AHEAD NOW AT THE NSLI PROGRAM FOR SIMILAR ACTION. WHY WAIT FOR 20 MORE YEARS WHEN MOST OF THE REMAINING POLICY HOLDERS WILL BE DEAD?II

NEW INITIATIVES

MR. CHAIRMAN, LAST YEAR THE CONGRESS INCLUDED IN THE DEFENSE AUTHORIZATION ACT A REQUIREMENT THAT THE DEPARTMENT OF DEFENSE DESIGN A PROGRAM TO CONTRACT WITH ONE OR MORE PRIVATE INSURANCE COMPANIES TO PROVIDE, AT A LOWER THAN INDIVIDUAL RATE WITH A WAIVER OF PRE-EXISTING CONDITIONS, A CONVERSION POLICY TO PROVIDE HEALTH CARE FOR ALL INDIVIDUALS WHO LOSE THEIR ENTITLEMENT TO CARE IN THE MILITARY HEALTH CARE SYSTEM. I BELIEVE THIS FUNCTION IS MORE PROPERLY A FUNCTION WITHIN THE OVERSIGHT RESPONSIBILITIES OF THIS COMMITTEE. THE NEED FOR THIS TYPE OF MEDICAL CARE COVERAGE HAS BEEN RECOGNIZED AND SINCE THIS BENEFIT WOULD APPLY FOR THOSE WHO LEAVE MILITARY SERVICE, I STRONGLY RECOMMEND THAT A PROGRAM BE ESTABLISHED TO MEET THIS REQUIREMENT. CURRENTLY CONFEREES OF THIS COMMITTEE ARE FACED WITH A BUDGET RESOLUTION CALLING FOR A DRASTIC REDUCTION IN THE COSTS OF VA HEALTH CARE. THIS BUDGET RESOLUTION, THOUGH NOT

SPECIFIC, POINTS TOWARD REDUCTION IN HEALTH CARE FOR VETERANS OVER AGE 65 WHO DO NOT HAVE SERVICE CONNECTED DISABILITIES. WITH THE MAJORITY OF WWII VETERANS RAPIDLY APPROACHING THAT AGE, IT IS RECOMMENDED THAT THE MEDICAL CARE FOR THESE VETERANS BE PROVIDED THROUGH A GOVERNMENT CONTRACTED MEDICARE SUPPLEMENTAL INSURANCE PROGRAM. PREMIUMS FOR SUCH SUPPLEMENTAL COVERAGE COULD BE COORDINATED WITH SOCIAL SECURITY. PREMIUMS COULD BE ADJUSTED FOR THOSE WITH SERVICE CONNECTED DISABILITIES BY THE VA PAYING THAT PORTION FOR THE SUPPLEMENTAL PLAN EQUAL TO THE PERCENTAGE OF SERVICE CONNECTED DISABILITY OF THE VETERAN. THIS COULD BE FURTHER EXPANDED TO INCLUDE SUPPLEMENTAL COVERAGE FOR BENEFICIARIES OF THE CHAMPVA PROGRAM. SUCH A PLAN COULD RESULT IN A REDUCTION IN FUTURE VA MEDICAL FACILITIES AND A REDUCED PREMIUM FOR THE VETERAN. OTHER ADVANTAGES ACCRUING FROM THE SYSTEM WOULD INCLUDE GREATER CONTINUITY OF CARE AND INCREASED MEMBER SATISFACTION IN THAT THE VETERAN WOULD BE ABLE TO ELECT THE PROVIDER.

MR. CHAIRMAN, I KNOW I HAVE MADE SOME RATHER RADICAL SUGGESTIONS TO IMPROVE THE SERVICE OF THE VETERANS' ADMINISTRATION INSURANCE PROGRAMS, BUT I BELIEVE THEM TO BE CONSTRUCTIVE IN NATURE WITH THE ULTIMATE OBJECTIVE TO IMPROVING THE INSURANCE COVERAGE FOR OUR SOLDIERS AND SAILORS WHO SERVE THEIR COUNTRY, WHILE AT THE SAME TIME DRAWING ATTENTION TO AREAS WHEREBY SAVINGS CAN BE EFFECTED TO THE GOVERNMENT. THIS CONCLUDES MY COMMENTS AND I WOULD BE HAPPY TO TRY AND ANSWER ANY QUESTIONS THE MEMBERS MAY HAVE.

STATEMENT OF
STEPHEN L. EDMISTON
DEPUTY NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
September 10, 1985

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the one million members of the Disabled American Veterans, may I say that we appreciate this opportunity to present our views on the various Veterans Administration insurance programs.

Before proceeding with my statement, Mr. Chairman, I wish to commend you for holding these hearings and for keeping a watchful eye on the effectiveness of these important programs. I wish to further compliment you and the members of the Subcommittee for your continual efforts to enhance veterans' insurance benefits.

VA LIFE INSURANCE PROGRAMS

Presently, Mr. Chairman, there are six government life insurance programs which are operated by the Veterans Administration. United States Government Life Insurance (K insurance), referred to as USGLI, was established by Congress in May, 1919, for the conversion of War Risk Insurance "T" policies (a yearly renewable term insurance made available to veterans who served on active duty between October 6, 1917, and June 7, 1924) to permanent plans. The World War Insurance Act of 1924 provided that servicemen who served in the Armed Forces between October, 1917, and July, 1921, were eligible to apply for USGLI. A five year renewable term plan became available under the "K" program on June 2, 1926, and all yearly renewable term policies were terminated on July 2, 1927. Eligibility under the USGLI program ended on April 25, 1951.

The National Service Life Insurance Act of 1940 was originally established on October 8, 1940, for servicemen of World War II. Under this Act, five year level premium term policies were issued from October 8, 1940 to October 1, 1948. As each term policy was converted to a permanent plan or renewed for a new term plan after September 30, 1948, a "V" prefix was assigned to each policy. "V" policies constitute the largest of all VA insurance programs.

The third program provides insurance to veterans identical to "V" policies except that no dividends are payable. These policies are prefixed by the letter "H" and this insurance was issued or reinstated to veterans who were unable to meet the good health requirements under the "V" program because of service-incurred disabilities.

Policies issued under the Veterans Special Life Insurance Program were prefixed with the letters "RS" and were made available to Korean veterans at the time of their separation from service. Insurance under this program was first issued as a five year level premium term and, as these policies were converted to permanent plans, "FV" and "W" prefixes were assigned for filing purposes. These policies began to earn dividends in January, 1975.

The fifth program, Service Disabled Veterans Insurance is prefixed with the letters "RH." This is the only life insurance program currently available to veterans and these policies do not participate in dividends.

Veterans Reopened Insurance was the last program of VA insurance made available for World War II veterans. A one year period, May 1, 1965 through May 2, 1966, was provided for service-connected disabled World War II veterans (who were eligible for NSLI after October 7, 1940 and before January 1, 1957) to apply under the Veterans Reopened Insurance Program.

Policies assigned under this program were given three sets of prefixes starting with the letter "J." The "J" prefix was assigned to policies which were issued to veterans who had a service-connected disability but who were otherwise in good health. The "JR" prefix was assigned for policies issued to veterans who were uninsurable because of a service-connected disability and who were otherwise in good health. The "JS" prefix was assigned to policies which were issued to veterans who could not buy commercial insurance because of a nonservice-connected disability.

While most World War II veterans were eligible for the "J" insurance, the record shows that a majority of these veterans were "priced out" of the VA insurance market. Even though service-connected disability was removed as a "bar" to insurance coverage, the high premium cost--based on disability and age factors--was prohibitive. Therefore, fewer than 3% of those who were eligible under the "J" program actually purchased the insurance.

In 1977, it was determined there were sufficient funds available to pay all future claims for those insured with a "JS" policy and, as of October, 1977, all policies in this group were declared fully paid.

VGLI AND SGLI

As you know, Mr. Chairman, the Veterans Insurance Act of 1974 (Public Law 93-283), among other things, increased the maximum coverage of SGLI from $15,000 to $20,000 for all active duty members of the Uniformed Services and established the Veterans Group Life Insurance Program (VGLI). Subsequently, Public Law 97-66 increased the maximum coverage under these programs to $35,000, and legislation has passed both the House and Senate this year that would increase this amount to $50,000.

Under VGLI, servicemen who are covered by Servicemen's Group Life Insurance (SGLI) have 120 days in which to convert their SGLI to the Veterans Group Life Insurance Program--a five year non-renewable term policy. At the end of the five year period, such insured veterans must apply to commercial insurance companies for conversion to a permanent plan of insurance. Participating insurance companies are required to provide coverage at standards rates without regard to a veteran's health.

Mr. Chairman, the Veterans Group Life Insurance Program, established in August, 1974, was designed to encourage younger Vietnam Era veterans to maintain the insurance they had purchased under the SGLI program. This incentive was provided by allowing recently discharged veterans a period of up to five years to convert the insurance they had purchased while on active military duty to private commercial policies.

MORTGAGE PROTECTION LIFE INSURANCE

Mr. Chairman, Section 806 of Title 38, U.S. Code, authorizes the Administrator to purchase from commercial life insurance companies Mortgage Protection Life Insurance policies, on a group basis, for those service-connected veterans who have purchased housing under Section 801(a), Title 38, U.S. Code--the VA's Specially Adapted Housing Program.

Under present law, such permanently and totally disabled service-connected veterans are granted Mortgage Protection Life Insurance not to exceed $40,000 or the amount of the mortgage, whichever is the lesser amount. The maximum insurance liability is reduced as the mortgage is amortized and is only available to the holder of the mortgage.

Generally, such Veterans Mortgage Life Insurance is provided to these severely disabled veterans on a cost-sharing basis--with the federal government covering the increased cost of such insurance which is based on the veteran's service-connected disability.

As stated previously, Mr. Chairman, the $40,000 Mortgage Protection Life Insurance is only available to eligible service-connected veterans who have purchased a home under the VA's Specially Adapted Housing Program. All veterans participating in the Specially Adapted Housing Program are advised of their eligibility for Veterans Mortgage Life Insurance.

However, very few veterans are aware that additional remaining eligibility for such coverage is available to them if they relocate or move into another home within their community. In this connection, we believe that the Veterans Administration should be required to advise all eligible veterans of any remaining entitlement to Mortgage Life Insurance upon the resale of their home or termination of an existing Mortgage Protection Life Insurance policy.

In discussing the Veterans Mortgage Life Insurance Program, Mr. Chairman, we feel compelled to comment on several issues of concern to the Disabled American Veterans.

The first issue concerns the matter of extending VA Mortgage Life Insurance to service-connected veterans rated permanently and totally disabled--but who are not eligible under the VA's Specially Adapted Housing Program as outlined in Section 801(a), Title 38, U.S. Code.

Aside from the fact that such a proposal would be a compassionate gesture--recognizing the sacrifices of totally disabled service-connected veterans--the enactment of such a proposal would greatly benefit such severely disabled veterans who, because of their service-connected disabilities cannot purchase mortgage insurance from commercial insurers at any cost.

Mr. Chairman, in enacting Public Law 92-95, which created the VA's Mortgage Life Insurance Program, the Veterans Administration pointed out in testimony that:

> Few, if any, of these veterans can obtain Mortgage Protection Life Insurance from commercial sources. These veterans have suffered greatly and deserve our most sympathetic understanding and consideration. Viewing these facts alone, the bill would appear to warrant favorable consideration.

Again, the enactment of such a proposal would provide additional security for the families of service-connected veterans rated as permanently and totally disabled. We believe that such severely disabled veterans, because of their service-connected disabilities, are excluded from the commercial life insurance market and, because of the nature and extent of their disabilities may not have accumulated the savings necessary to insure financial security for their families.

Recognizing this, the delegates to our 1985 National Convention adopted the following resolution (No. 062) placing our organization on record as strongly supporting the enactment of legislation which would extend VA Mortgage Life Insurance to service-connected veterans rated permanently and totally disabled:

TO EXTEND ELIGIBILITY FOR VETERANS MORTGAGE
PROTECTION LIFE INSURANCE TO SERVICE-CONNECTED
VETERANS RATED PERMANENTLY AND TOTALLY DISABLED

> WHEREAS, VA Mortgage Protection Life Insurance is presently available to veterans entitled to the specially adapted housing award under Section 801(a) of Title 38, U.S. Code; and
>
> WHEREAS, service-connected veterans rated as permanently and totally disabled cannot obtain Mortgage Protection Life Insurance through commercial insurance companies; and
>
> WHEREAS, their surviving spouse and dependents must bear an undue hardship upon the death of such veterans; NOW
>
> THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in New Orleans, Louisiana, July 21-25, 1985 seeks the enactment of legislation which would extend VA Mortgage Protection Life Insurance to service-connected veterans who are rated as permanently and totally disabled.

The other issue of importance we wish to discuss with the Subcommittee, Mr. Chairman, concerns the termination of VA Mortgage Life Insurance.

As you know, Section 806, Title 38, U.S. Code provides, among other things, for the termination of VA Mortgage Life Insurance whenever one of the following first occurs:

1. satisfaction of the veteran's indebtedness under the loan upon which the insurance is based;
2. the veteran's 70th birthday;

3. termination of the veteran's ownership of the property securing the loan;
4. discontinuance of payment of premiums by the veteran; or
5. discontinuance of the entire contract or agreement.

Most of the reasons set forth in this section for the termination of VA Mortgage Life Insurance are understandably necessary. However, we are quite concerned with the requirement that terminates a benefit to severely disabled service-connected veterans solely because of age.

Quite frankly, Mr. Chairman, we believe this provision of Title 38, U.S. Code has created an anomaly that unfairly treats similarly situated severely disabled service-connected veterans in a dissimilar manner in the award of benefits. Nowhere else in Title 38, U.S. Code do we find a provision that links age as a factor in the award or discontinuance of benefits provided to service-connected disabled veterans.

Mr. Chairman, because of the serious impact this provision has had upon certain service-connected disabled veterans and their families, we strongly urge you and the members of the Subcommittee to take the necessary steps to correct this anomaly. Furthermore, we believe any change to correct this inequity should be made retroactively, thereby enabling those who have lost entitlement to VA Mortgage Life Insurance because of age, the opportunity to reapply for this coverage.

In this regard, the delegates to our 1985 National Convention adopted the following resolution (No. 288) placing our organization on record as strongly supporting the enactment of legislation to provide VA Mortgage Life Insurance to eligible veterans beyond their 70th birthday:

> TO PROVIDE MORTGAGE PROTECTION LIFE INSURANCE TO ELIGIBLE VETERANS BEYOND THEIR SEVENTIETH BIRTHDAY
>
> WHEREAS, the Administrator is authorized to purchase mortgage protection life insurance for service-connected disabled veterans who have obtained housing assistance under Section 801(a), Title 38, U.S. Code--specially adapted housing; and
>
> WHEREAS, Section 806(h)(i)(2), Title 38, U.S. Code provides for termination of such insurance coverage on such housing upon the veteran attaining the age of seventy (70); and
>
> WHEREAS, this is the singular provision of Title 38, U.S. Code that predicates age as a determining factor for the receipt of a benefit based upon service-connected disability; and
>
> WHEREAS, this restrictive provision of law creates an inequity between the aged veteran and similarly situated younger veterans with equally incapacitating severe service-connected disabilities; NOW
>
> THEREFORE, BE IT RESOLVED that the Disabled American Veterans in National Convention assembled in New Orleans, Louisiana, July 21-25, 1985 supports the enactment of legislation to correct this inequity by deleting Section 806(h)(i)(2) from current law, thereby enabling veterans to retain mortgage life insurance beyond the age of seventy (70).

That concludes my statement, Mr. Chairman. I again wish to thank you and the members of the Subcommittee for inviting the DAV here today to discuss these important issues.

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The Servicemembers Voice in Government
Established 1968

Statement of

Charles C. Partridge
Legislative Counsel

National Association for Uniformed Services

Before the

Subcommittee on Compensation, Pension and Insurance

Committee on Veterans' Affairs

U.S. House of Representatives

September 10, 1985

Mr. Chairman, and members of this subcommittee, I welcome the opportunity to present the views of the National Association for Uniformed Services (NAUS) to this distinguished panel. NAUS is unique in that our membership represents all ranks of career and non-career service personnel and their wives and widows. Our membership includes active, retired, and reserve personnel of all seven uniformed services: Army, Navy, Air Force, Marines, Coast Guard, Public Health Service, and the National Oceanic and Atmospheric Administration. With such a membership, we are able to draw information from a broad base for our legislative activities.

An improved insurance program is essential if we are to meet the needs of the young servicemember. Since increasing numbers of them are married, the insurance program is becoming a more important part of military compensation and a key benefit for young veterans. The action by both Houses of Congress to increase the maximum coverage of SGLI to $50,000 is an excellent step toward improving insurance coverage. However, we believe that this should be considered a first step and that the committee consider making the program more flexible with a range of coverage options comparable to that available to federal civilian employees and employees in the private sector.

We would particularly like to see a provision for expanding the group term life insurance program to include a cash value or equity building component. This could be a group policy similar to the universal life policies now available and would allow the servicemember the opportunity to build an estate, increasingly important in view of the current assault on military compensation. Since this part of the insurance program is the cash value component there would be no war risk and no need for a subsidy if it is properly administered. The program could be self-supporting with the savings to the servicemember coming from providing insurance without agents' commissions, advertising costs and lower per-capita administrative costs. Periodic competitive bidding would be essential to insure these administrative savings are realized. If properly designed the policy could be a powerful retention tool, particularly at the mid-career point.

Other improvements to the program would be to extend SGLI coverage without the requirement for conversion until Social Security eligibility or at least until age 60, as is the case for reservists. Currently there are thousands of military personnel who have been transferred to the Fleet Reserve or other reserve components or with contingency or "hip-pocket" orders who have been required to convert their policies or are no longer covered because the conversion cost is too great. It would seem that SGLI coverage should be available to these servicemembers who are still serving and subject to involuntary recall at the discretion of the service secretaries.

NAUS continues to support providing payment of VGLI by allotment from VA disability compensation or retired pay for several reasons:

- It eliminates the possibility of coverage lapse.
- Should result in administrative cost savings to the VA.

I understand that Department of Defense and the VA are looking at a plan to provide for application for VGLI at the servicemembers separation point as part of discharge and retirement processing. This would be a tremendous improvement over the current method, and if coupled with provisions to allow payment by allotment would certainly increase the number of participants.

NAUS appreciates the opportunity to present its views on this subject, and the interest displayed by this committee on matters of importance to this nation's veterans.

I am prepared to respond to questions.

PVA
PARALYZED VETERANS
OF AMERICA
Chartered by the Congress
of the United States

STATEMENT OF

BOB MORAN, ASSOCIATE LEGISLATIVE DIRECTOR

PARALYZED VETERANS OF AMERICA

BEFORE THE

SUBCOMMITTEE ON COMPENSATION, PENSION AND INSURANCE

OF THE

HOUSE COMMITTEE ON VETERANS' AFFAIRS

CONCERNING

VA INSURANCE PROGRAMS

SEPTEMBER 10, 1985

Mr. Chairman and Members of the Subcommittee, on behalf of the members of Paralyzed Veterans of America, I wish to thank you for the opportunity to present the views and concerns of PVA regarding Veterans Administration insurance programs. I am Bob Moran, PVA Associate Legislative Director.

Our testimony will be limited to two of the insurance programs administered by the VA which directly affect PVA's members. They are National Service Life Insurance RH policies for veterans with service-connected disabilities and Veterans Mortgage Life Insurance for those veterans who have received a specially adapted housing grant.

The insurance programs administered by the Veterans Administration have long served as a necessary resource for many veterans (particularly severely disabled veterans) who otherwise would not have access to commercial insurance. The maximum levels for some of these insurance programs have not been increased and the effects of inflation have reduced their efficacy. For veterans to be well-served by these programs, VA insurance coverage must reflect the prevailing economic conditions of the nation: they need to be increased to levels comparable to those available through commercial insurance providers.

National Service Life Insurance (NSLI)

RH insurance is a special type of National Service Life Insurance, which is available to veterans with service-connected disabilities. Any service-connected veteran released from active duty, on or after April 25, 1951, under other than dishonorable conditions is eligible to apply for this insurance. Good health, except for the service-connected disability, is a requirement. RH insurance is issued in amounts from $1,000 to $10,000, in multiples of $500, and the veteran cannot purchase any other insurance under any other federal government life insurance program, which would total more than $10,000.

PVA's concern is with the low amount of insurance coverage provided under this type of policy. It must be kept in mind that it is this same service-connected disability that hinders the veteran from purchasing insurance from commercial companies at a reasonable premium.

Commercial insurance companies estimate the appropriate amount of insurance protection required by an individual by using the factors of age, life expectancy, number of dependents and annual earning capacity. By using these factors, the dollar value of insurance necessary to provide for adequate protection is derived. The maximum amount of NSLI, $10,000, is not sufficient to meet today's obligations when compared to the recommendation of private insurers.

For a spinal cord injured veteran, using the criteria established by private insurers, adequate coverage should be over $140,000. This is based on a veteran aged 42, married with two children, average life expectancy of 70, with a monthly compensation of approximately $2,000. The appropriate amount of coverage is developed by using the insurance industry's formula of taking the annual income and multiplying by a factor of six. For the above veteran using this formula, the total family protection the veteran should carry is $147,672.

It is apparent that a policy (NSLI) designed over 30 years ago is inadequate today. It has not been increased to offset rising economic factors, and it does not permit the catastrophically disabled veteran the opportunity of providing long-term financial security. PVA strongly recommends that this Subcommittee consider raising the NSLI maximum amount available, and allowing eligible veterans the opportunity to purchase additional amounts of RH insurance in increments of $500, up to an additional $100,000.

The $10,000 offered the veteran by the VA, with the veteran's purchase of $100,000, (maximum) would give a more realistic insurance coverage of

$110,000, more in keeping with the adequate coverage recommended by commercial insurance companies.

This alternative would add minimal administration costs to the V.A., yet, allow those veterans who need more protection the opportunity to provide needed security for their families.

Veterans Mortgage Life Insurance (VMLI)

Another concern of PVA is the Veterans Mortgage Life Insurance Program. This type of insurance became available on August 11, 1971, with the enactment of Public Law 92-95. VMLI is a program of group-type mortgage life insurance for service-connected disabled veterans who have been granted a specially adapted housing grant under Chapter 21, Section 801 of Title 38 USC.

VMLI provides mortgage insurance for severely disabled veterans who would not otherwise be able to obtain coverage because of their medical conditions. The present maximum coverage was increased to $40,000 through provision of Public Law 94-433, effective October 1, 1976. Protection is automatic for the amount of the mortgage, up to the maximum of $40,000, unless eligible veterans decline in writing or fail to respond to a final request for information on which their premium can be based.

Premiums are automatically deducted from any compensation or other cash benefits payable to them by the VA. Any veteran insured, not eligible for cash benefits from the VA, may pay the amount of his premiums directly to the insurer. The policy remains in effect until the mortgage, up to the maximum

$40,000 has been liquidated, or the home is sold; or until the veteran reaches 70 years of age, or dies. If a mortgage is disposed of through liquidation or sale of the property, any unused portion of the mortgage life insurance policy may be used on the mortgage of a subsequent home.

VMLI is made available to those veterans who qualify under Section 801, Title 38, USC, which provides eligibility for those veterans entitled to compensation for permanent and total service-connected disability.

1) due to the loss, or loss of use, of both lower extremities, such as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair, or

2) which includes (A) blindness in both eyes, having only light perception, plus (B) loss, or loss of use of one lower extremity, or

3) due to the loss, or loss of use, of one lower extremity together with (A) residuals of organic disease or injury, or (B) the loss, or loss of use of one upper extremity, which so affect the functions of balance or propulsion as to preclude locomotion without the aid of braces, crutches, canes, or a wheelchair.

This strict criteria for veterans to obtain VMLI limits the eligibility to a relatively small number of veterans, less than 6,000 nationwide. Consequently, the cost to the government is not great.

Mr. Chairman, PVA believes the cost factors involved in new home construction are well known to all Members of the Subcommittee. A brief summary of the escalating cost of housing, including the VA amounts for the Grant and VMLI is as follows:

Year	Housing Costs	VA Grant	VMLI
1976	$57,789 *	$25,000	$40,000
1985	$101,900 *	$35,500	$40,000

*Source-National Home Builders (national average).

Mr. Chairman, while the figures themselves provide evidence of the escalating cost of housing involved (in less than 10 years housing costs have nearly doubled), it is clear that VMLI is not keeping pace with today's economic situation.

The following illustration shows that a veteran who buys a specially adapted house, utilizing the maximum amount of the VA grant and the maximum amount of VMLI, cannot be assured of providing mortgage-free housing for his spouse and dependents upon his death.

Today's Average Housing Cost	$101,900.00
VA Grant	$35,500.00
Total Mortgage	$66,400.00
VMLI Protection	$40,000.00
Unprotected Mortgage Leftover	$26,400.00

PVA advocates that VMLI maximum coverage be increased to $60,000 to more accurately reflect the increased amount of mortgage which is likely to remain after the veteran's death. PVA continues to receive correspondence from widows who are forced to sell the family home when faced with a high mortgage, increased taxes, and a drastically lower Dependency and Indemnity Compensation payment upon the death of the veteran.

Mr. Chairman, in conclusion, I wish to reiterate PVA's concerns. First, we believe that NSLI RH policies should be increased by the alternative PVA has suggested to reflect the current requirements for providing adequately for a veteran's survivors. We recommend providing the veteran the opportunity to purchase up to an additional $100,000 in coverage. Secondly, VMLI should be increased from $40,000 to $60,000, to reflect the rising cost of housing and allow our nation's severely disabled veterans sufficient coverage to provide adequately for their families.

Mr. Chairman, I want to extend PVA's appreciation to you and members of the Subcommittee for your ongoing efforts to improve the effectiveness of these most important programs that directly affect our members and their dependents, and for allowing PVA to testify and work with you and your professional staff in this endeavor. This concludes my testimony, and I will be glad to answer any questions that I can.

REMARKS OF HONORABLE GERALD SOLOMON, SEPTEMBER 10, 1985

THANK YOU, MR. CHAIRMAN.

WE ARE MEETING THIS MORNING TO CONDUCT AN OVERSIGHT HEARING ON THE VARIOUS INSURANCE PROGRAMS ADMINISTERED BY THE VETERANS ADMINISTRATION FOR THE BENEFIT OF OUR NATION'S VETERANS.

THE VETERANS ADMINISTRATION'S INSURANCE PROGRAMS CONSTITUTE ONE OF THE LARGEST SUCH PROGRAMS IN THE ENTIRE NATION TODAY.

MILLIONS OF VETERANS HOLD VA INSURANCE POLICIES OF ONE TYPE OR ANOTHER, AND THESE VETERANS LOOK TO THIS PANEL FOR THE PROPER OVERSIGHT AND MAINTENANCE OF THESE IMPORTANT INSURANCE PROGRAMS.

BECAUSE WE, AS MEMBERS OF THIS COMMITTEE, RARELY RECEIVE COMPLAINTS ABOUT THE VA INSURANCE PROGRAMS, I FEEL CONFIDENT IN SAYING THAT THEY ARE AMONG THE MOST WELL MANAGED PROGRAMS OF THEIR KIND IN THE NATION.

IT HAS BEEN SEVERAL MONTHS SINCE AN OVERSIGHT HEARING WAS LAST HELD ON VA INSURANCE PROGRAMS, SO I LOOK FORWARD TO HEARING FROM OUR WITNESSES THIS MORNING FOR THEIR GUIDANCE AS TO HOW WE MIGHT MAINTAIN AND PERHAPS EVEN IMPROVE THIS IMPORTANT VETERANS' PROGRAM.

THANK YOU, MR. CHAIRMAN.

NATIONAL CAPITAL OFFICE
NON COMMISSIONED OFFICERS ASSOCIATION of the UNITED STATES OF AMERICA
STRENGTH IN UNITY
219 North Washington Street
Alexandria, Virginia 22314
Telephone (703) 549-0311

August 26, 1985

Honorable Douglas Applegate
Chairman
Subcommittee on Compensation,
Pension and Insurance
Committee on Veterans Affairs
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for inviting a representative of the Non Commissioned Officers Association to testify before the Subcommittee at its September 10 hearing on Veterans Administration insurance programs. NCOA is sincerely concerned about insurance programs for veterans and active duty servicemembers. However, in lieu of appearing before the committee, the Association offers the following comments:

> The Veterans Administration has maintained its insurance programs in a most commendable manner. Indeed, the administration and operation of VA insurance programs are virtually beyond reproach. Congress and your committee must share in the credit for their success. Without the excellent legislation produced by the committee and the even handed oversight given these issues, the VA could certainly falter.
>
> NCOA is grateful that Congress has nearly reached an agreement to increase Serviceman's Group Life Insurance (SGLI) and Veterans Group Life Insurance (VGLI) coverage ceilings to $50,000. Although enactment is still pending, NCOA is confident of its passage. This important modification in the SGLI/VGLI program has been under consideration in various forms for nearly three years. It is sorely needed and through the efforts of this committee, success is in sight.

International Headquarters
NCO ASSOCIATION
P.O. Box 33610
San Antonio, Texas 78233
(512) 653-6161

> The Association offers but one recommendation regarding improvement in insurance programs. As the committee is aware, servicemembers on active duty or in the active reserves may pay their SGLI premiums by "allotment", the military form of payroll deduction. However, because of service regulations and Office of Serviceman's Group Life Insurance (OSGLI) policy, retired servicemembers, veterans, and some individual ready reservists in receipt of monthly government payments are not allowed to pay VGLI premiums through allotment. NCOA previously raised this issue in testimony before the committee. In response, both the Defense Department and Veterans Administration have indicated a willingness to achieve a solution to the issue. However, the Association believes to accomplish this most desirable goal both agencies should be formally encouraged by the committee to report on their progress.

On behalf of NCOA, thank you again for inviting the Association's participation and for your continuing support of veterans.

Sincerely,

Richard W. Johnson, Jr.,
Director of Legislative Affairs

RWJ/frb

Office of General Counsel **Washington D.C. 20420**

Veterans
Administration

OCT 17 1985

In Reply Refer To:

Honorable Douglas Applegate
Chairman, Subcommittee on
Compensation, Pension
and Insurance
Committee on Veterans' Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed please find the Agency's responses to the questions you submitted following the Subcommittee's hearing on September 10, 1985, regarding the VA's insurance programs.

I appreciate the opportunity to provide additional information for the record.

Sincerely yours,

DONALD L. IVERS
General Counsel

Enclosure

Responses to Questions Submitted by the Honorable Gerald Solomon

1. What is the current interest rate on G.I. insurance policy loans?

The current interest rate on new loans is 11 percent.

2. Please explain why term policyholders over age 70 will not receive dividends after their premiums are capped.

In general, the main source of dividends are mortality savings by age and excess interest earnings. The main source of dividends on term policies is from mortality savings. For insureds under renewal age 70, NSLI "V" term dividends are refunds of surplus earnings above that needed to provide benefits. For insureds renewal age 70 and over, as a result of term capping, term premiums are expected to equal term costs. Therefore, there will be no excess earnings to be returned in the form of dividends to these policyholders. Payment of dividends to these policyholders in the future will depend on the future mortality and investment experience.

3. What is your annual lapse experience on National Service Life Insurance?

Lapse experience on NSLI:

Lapses For Year (12 Month Period Ending June 30, 1985)

Inforce at Beginning of Period	Number of Lapses	Lapse Rate
3,933,562	53,189	1.35%

4. What are the comparative workloads of the Philadelphia Office and the Fort Snelling Office?

The Philadelphia office provides service on approximately 2.5 million policies, including 1.1 million direct pay accounts owned by veterans residing in the eastern United States; 65,000 United States Government Life Insurance (USGLI) accounts; 526,000 accounts on which premiums are paid by deduction from VA benefits or employer payrolls. The St. Paul office services approximately 1.4 million policies, consisting mainly of direct pay National Service Life Insurance (NSLI) accounts owned by veterans residing in the western United States.

The Philadelphia office also houses the Insurance Program Management Division, the Actuarial Staff and the Data Processing Center (DPC) which provide the primary support functions for the Philadelphia and St. Paul insurance activities.

5. Are you able to predict the amount of National Service Life Insurance dividends for 1986?

Our Actuarial Staff estimates 1986 NSLI dividends will exceed $784 million. This works out to an average of approximately $35.58 per thousand dollars of insurance per policy.

6. Please discuss the matter of veterans converting term policies of National Service Life Insurance to permanent plans?

As result of term capping, the VA no longer conducts special mailings to encourage term policyholders to convert to permanent plans. We now receive very few complaints regarding the high cost of term insurance. Of course, all term policyholders still have the right to convert their insurance.

7. Do you currently have any problems with beneficiary designations?

Several years ago we did experience problems with beneficiary designations, as a result of our inability to authorize a lump-sum settlement when the insured failed to select a settlement option. As a result of both statutory and regulatory changes in this area, problems concerning lump-sum settlements have virtually disappeared. Currently, 98 percent of all claims are paid in a lump-sum.